CHAPTER 5

Poverty Reduction and Debt Relief for Low-Income Countries

The stubbornly high incidence of extreme poverty in many parts of the world remains one of the greatest challenges facing the international community. The International Development Goals adopted by United Nations conferences in the early 1990s[1] aim to halve the incidence of extreme poverty by 2015 as well as achieve correspondingly ambitious improvements in infant, child, and maternal mortality; education; reproductive health; and the environment. At the UN Millennium Summit held in 2000, world leaders underscored the need to intensify the fight against poverty, ensure that globalization becomes a positive force for all, and help developing countries mobilize resources to finance their sustained development (see Box 5.1).

The goal of poverty reduction in the low-income countries will not be achieved without sustained economic growth that favors the poor. This will require the concerted efforts of both the low-income countries themselves and the broader international community. Among the responsibilities of the world community are the opening of markets for developing countries' exports, increasing aid flows, and helping to reduce the burden of international debt on heavily indebted low-income countries so they can increase the resources applied to poverty reduction.

The IMF has an important role to play, in collaboration with the World Bank, in the global effort to promote poverty reduction. In September 1999, the International Monetary and Financial Committee endorsed enhancements to the Initiative for Heavily Indebted Poor Countries (the HIPC Initiative). The Committee also accepted proposals to link debt relief, as well as concessional lending through the IMF's new Poverty Reduction and Growth Facility (PRGF) and the World Bank's International Development Association (IDA), to country-owned, comprehensive policy strategies described in Poverty Reduction Strategy Papers (PRSPs). PRSPs embody the principles of country ownership, participatory consultation with civil society and other stakeholders, and a focus on outcomes in terms of poverty reduction.

Progress reports on the enhanced HIPC Initiative and the PRSP approach were prepared in April 2000, September 2000, and April 2001, and have been subsequently published. Although major challenges remain, much progress was achieved in FY2001.

Enhanced HIPC Initiative

The international community recognized, in the mid-1990s, that the external debt burdens of many low-income countries had become unsustainable. Without comprehensive debt relief, most of these countries would remain indefinitely dependent on reschedulings of official bilateral debt, even with the continued provision of concessional financing from the multilateral institutions and sound economic policies in the countries concerned.

Launched in 1996 by the IMF and the World Bank, the Initiative for Heavily Indebted Poor Countries marked the first time that multilateral, Paris Club, and other official bilateral creditors united in a joint effort to reduce the debt stock of the world's most debt-distressed poor countries to sustainable levels—that is, levels that allow these countries to service their debt through export earnings, aid, and capital inflows without compromising long-term economic growth and poverty reduction. Central to the Initiative are the debtor country's sustained adjustment and reform efforts.

Recognition that subsequent progress was too slow led the IMF and the World Bank in early 1999 to review the Initiative, in consultation with civil society organizations and public officials. In June 1999, the Group of Eight (G-8) industrial countries at the Cologne Summit proposed changing the eligibility criteria to provide speedier and deeper debt relief to more countries, and in September 1999 the membership of the IMF and the World Bank endorsed enhancements to provide faster, broader, and deeper debt relief (see Box 5.2).

[1]See *Annual Report 2000*, p. 57.

Box 5.1

IMF Involved with UN's Financing for Development Conference

In February 2001, IMF Executive Directors met in Washington with members of the United Nations Bureau for the Preparatory Committee of the High Level International Intergovernmental Event on Financing for Development to exchange views on agenda topics for the meeting of global policymakers, slated to take place in March 2002 in Mexico.

The Financing for Development effort is an outgrowth of the UN Millennium Summit held in September 2000, during which world leaders endorsed a set of key development goals, including sustaining economic growth, integrating countries left behind in the surge of globalization, and continuing the drive to eradicate poverty.

Although the conference is roughly a year away, comprehensive planning is proceeding on several fronts. The preliminary agenda includes the role of sound domestic economic and financial policies in mobilizing local and international financial resources for development; the role of industrial countries in supporting development financing, including through expanded opportunities for trade and debt relief; ways in which developing countries can access international financial markets; and how financial market crises can be better preempted and managed.

UN Secretary-General Kofi Annan's draft report, written in consultation with other UN agencies and with the IMF, the World Bank, and the World Trade Organization (WTO), summarizes current thinking on the still-evolving agenda and was prepared for consideration and discussion by the event's Preparatory Committee. Secretary-General Annan relied on several interagency working groups drawn from these organizations in the preparation of his report.

Progress to Date

By April 2001, 22 countries—more than half of the total expected to receive debt relief under the enhanced HIPC Initiative—had reached their decision points, allowing them to benefit from debt-service relief amounting to about $20 billion in net present value terms over time (see Table 5.1). Decision-point countries were receiving interim relief from some creditors, with others expected to follow. One country, Uganda, had reached its completion point under the enhanced HIPC Initiative, at which point debt relief was delivered unconditionally, and several more are expected to do so by the end of 2001. The countries that had yet to reach a decision point as of April 30, 2001, under the enhanced framework include a few that are likely to reach a decision point in FY2002. But many more HIPC-eligible countries are conflict-

Box 5.2

How Does the Enhanced HIPC Initiative Work?

The enhanced HIPC Initiative seeks to provide *deeper debt relief* by adopting more ambitious targets for debt sustainability:

- Under the external criterion, the net present value of debt-to-export target was reduced to 150 percent, from 200–250 percent;
- Under the fiscal criterion, the net present value of debt-to-fiscal-revenue target was reduced to 250 percent, from 280 percent; the threshold ratios to qualify for the fiscal criterion were also lowered: the exports-to-GDP ratio is now 30 percent, down from 40 percent, and the fiscal revenue-to-GDP ratio is now 15 percent, down from 20 percent.

Under the enhanced Initiative, once a heavily indebted poor country has established a sufficient track record of sound economic policies with a focus on poverty reduction, the country is considered to have reached its "decision point." At the decision point, the Boards of the IMF and the World Bank establish the amount of assistance needed by the debtor country to reach the sustainability thresholds (see Figure 5.1). Debt relief and other assistance begin in the form of "interim assistance" as soon as the decision point is reached. The amount of assistance is based on an assessment of the country's immediate needs and capacity for channeling the funds to poverty-reducing purposes. Assuming a country remains committed to sound, poverty-reducing policies throughout the period between its decision point and "completion point"—the point at which the remainder of the full stock-of-debt reduction pledged is delivered—interim relief will continue flowing.

The enhanced HIPC Initiative also aims to deliver *debt relief more quickly* by introducing "floating" completion points not linked to a rigid timeframe, but rather determined by progress toward a set of predefined reforms. Therefore, good performers can benefit from faster debt relief. In addition, the provision of interim assistance under the enhanced Initiative is a major departure from the original framework under which debt relief began flowing only after countries reached the completion point. The main aim is to free up more funds more rapidly to be reallocated to poverty reduction.

Moreover, the amount of debt relief determined at a country's decision point is now based on actual data available at the decision point, rather than on projections for the country's completion point.

The enhancements to the HIPC Initiative framework also result in *broadening debt relief* by expanding the number of eligible countries. Twenty-two countries identified as potentially eligible for debt relief under the Initiative now have debt relief agreements in place—with relief flowing.

Assistance under the HIPC Initiative is limited to countries eligible for PRGF and World Bank International Development Association (IDA) loans that have established strong track records of policy performance. This strong track record is intended to ensure that debt relief is put to effective use.

affected, including several that have protracted arrears to the World Bank and the IMF. Others may have sustainable debt burdens after traditional relief mechanisms and thus are not expected to need relief under the Initiative.

The 22 countries[2] receiving relief under the enhanced framework will benefit from significant reductions in debt stocks and debt-service payments (see Figure 5.2). In combination with traditional debt relief and pledges of additional bilateral debt forgiveness, the external indebtedness of these 22 countries will be reduced by almost two-thirds in net present value terms (from $53 billion to $20 billion), bringing their indebtedness to levels below the average for all developing countries. Real debt-service savings in these countries (relative to the amounts paid in 1998–99) are also substantial—about $1.1 billion annually—and debt payments as a percent of exports, GDP, and government revenues will fall dramatically.

Interim assistance offers countries an opportunity to receive immediate benefits while providing them time and support needed to fully articulate in their PRSPs the priorities and programs that they are supporting by debt relief funds, as well as by public resources in general. Based on early indications, the resources freed up by debt relief will be allocated in large part to health, including HIV/AIDS prevention and treatment; education; rural development and water supply; and road construction. Realizing these benefits, however, also requires prompt action on the delivery of committed relief by all creditors.

Challenges Ahead

The remainder of 2001 presents its own challenges in the implementation of the Initiative, with new countries coming forward for debt relief and countries now receiving relief preparing for completion points. The first challenge—moving forward with new decision point cases—presents special difficulties, as most of the countries that have yet to qualify for HIPC relief are either currently engaged in or have recently ended internal or cross-border armed conflict, and many are struggling with severe governance problems. At the same time, these countries need substantial external financing, including debt relief, for poverty-reducing programs and the reconstruction process. The second challenge involves helping to ensure that the 22 decision-point countries remain on track with their macroeconomic and reform programs for reaching their completion points. This, in turn, entails helping each of these 22 countries to develop and implement a full, nationally owned policy action plan, set forth in a Poverty Reduction Strategy Paper (PRSP) supported by the Boards of the IMF and the World Bank.

Maintaining Long-Term External Debt Sustainability

At an April 2001 meeting, Executive Directors agreed that HIPC debt relief provided a good basis for ensuring long-term debt sustainability, but that it also required continued adherence to sound macroeconomic management and structural reforms, as well as adequate flows of concessional external resources and increased access to markets of the advanced countries. (Some of these themes were also stressed during a visit to Africa by the heads of the IMF and the World Bank—see Box 5.3.)

Creditor countries had a key role to play in ensuring that HIPCs achieve a sustainable external debt position. Directors underscored the critical importance of increased access to industrial country export markets, adequate financing after the completion point, disciplined lending to countries with heavy debt burdens, and technical assistance to strengthen debt management. The Board also urged all creditors to deliver relief in a timely manner under the HIPC Initiative. Above all, debt relief should not replace other development assistance, and additional assistance to HIPCs should not come at the expense of non-HIPCs.

Sound policies by debtor countries—including macroeconomic policies, structural reforms, public sector management, good governance, and social inclusion—were critically needed to increase domestic saving and to stimulate output and export growth, in order to reduce external vulnerabilities and eventually the dependence on aid. Given the importance of the private sector for the long-term growth prospects of the HIPCs, Directors emphasized that HIPCs should ensure an enabling environment that will stimulate private economic activity and investment, and attract private equity, particularly foreign direct investment.

Because the projections of debt sustainability are very sensitive to the levels and composition of new borrowing, Directors recommended that new financing for the HIPCs should be on highly concessional terms. They emphasized the importance of transparency and monitoring of new lending to HIPCs, particularly of lending on nonconcessional terms.

Directors felt that the HIPC Initiative provided a good basis to achieve debt sustainability after the completion point. However, they noted that in a few HIPCs, the ratio of the net present value (NPV) of debt to exports was expected to fall below 150 percent only over the medium term, largely because of the projected levels of new borrowing and, in some cases, low export growth. While recognizing that these new borrowings were needed to support investment and output growth in the medium term, Directors commented

[2]A twenty-third country, Chad, reached the decision point in May 2001 (that is, after the end of FY2001). Côte d'Ivoire had reached its decision point under the original HIPC Initiative but has not yet reached its decision point under the enhanced Initiative.

Figure 5.1

Enhanced HIPC Initiative Flow Chart

First Stage

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

Decision Point

Either

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors

is adequate

for the country to reach external debt sustainability.

========> Exit

(Country does not qualify for HIPC Initiative assistance.)

Or

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors

is not sufficient

for the country to reach external debt sustainability.

========> World Bank and IMF Boards determine eligibility for assistance.

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

Second Stage

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

"Floating Completion Point"

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

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

Table 5.1.
Enhanced HIPC Initiative: Grouping of HIPCs, as of April 30, 2001

41 Heavily Indebted Poor Countries				
HIPC Relief Approved at Decision Point (22)		Decision Point Not Yet Reached (15)		Sustainable Cases (4)[1]
Benin	Mali	Burundi[2]	Lao P.D.R.	Angola[2]
Bolivia[3]	Mauritania	Central African Republic[2]	Liberia[2]	Kenya
Burkina Faso	Mozambique	Chad[3]	Myanmar[2]	Vietnam
Cameroon	Nicaragua	Congo, Dem. Rep. of [2]	Sierra Leone[2]	Yemen, Rep. of[5]
The Gambia	Niger	Congo, Rep. of [2]	Somalia[2]	
Guinea	Rwanda[2]	Côte d'Ivoire	Sudan[2]	
Guinea-Bissau[2]	Senegal	Ethiopia[2]	Togo	
Guyana	São Tomé and Príncipe[4]	Ghana		
Honduras	Tanzania			
Madagascar	Uganda			
Malawi	Zambia			

[1]These countries are expected to achieve debt sustainability after receiving debt relief under traditional mechanisms.
[2]Conflict affected.
[3]Chad reached its decision point in May 2001, and Bolivia reached its completion point in June 2001, after the end of FY2001.
[4]São Tomé and Príncipe did not receive HIPC assistance from the IMF since there was no credit outstanding from the IMF at end-1999, the basis for the HIPC relief calculation.
[5]Yemen reached a decision point in June 2000 with a sustainable debt after the application of traditional relief mechanisms.

that higher debt ratios raised the vulnerability of these countries to external shocks. They welcomed the fact that, as a result of the HIPC Initiative, these countries would have relatively low projected levels of debt service and that additional voluntary bilateral debt relief already announced would further reduce the debt and debt-service ratios.

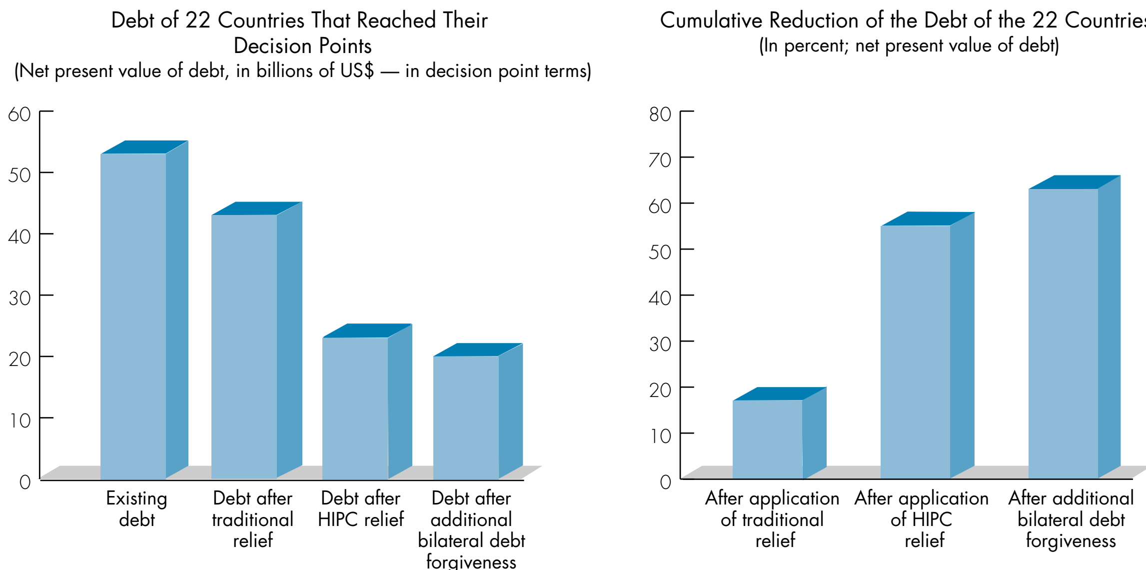
Directors agreed that completion point documents should contain a thorough analysis and discussion of the prospects for long-term debt sustainability. Directors reaffirmed their willingness to consider—within the existing framework of the enhanced HIPC Initiative—additional debt relief in exceptional cases, where exogenous factors cause fundamental changes in a country's economic circumstances, based on a comprehensive reassessment of a HIPC's situation at the completion point.

Directors also stressed that debt management needs to be strengthened. In this regard, they urged HIPCs to focus on transparent accounting and on ensuring coordination of debt management with monetary and fiscal policies. They encouraged IMF staff to continue to work with the authorities, specialized agencies, and providers of technical assistance to enhance debt management capacity.

Assistance to Postconflict Countries

In April 2001, the Bank and IMF Boards reviewed a joint paper on selected aspects of the two institutions' assistance to postconflict countries. A major focus of the paper was how to help eligible postconflict countries qualify for assistance under the HIPC Initiative. The paper noted that a key challenge would be to help those remaining HIPC-eligible countries that have been affected by conflict to develop the performance track record that would enable them to move toward their decision points and begin receiving debt relief. The need for debt relief in these countries was particularly acute because of the severe poverty and major reconstruction needs that many of them face. The Boards of the IMF and World Bank have agreed that the existing HIPC Initiative framework has sufficient flexibility to accommodate the special circumstances of these countries, including with regard to the length of the track record. While recognizing that many of these countries face urgent financing needs, IMF Directors also stressed the importance of adequate conditionality and of ensuring that the debt relief would be used effectively for poverty reduction. In that regard, they emphasized the importance of establishing mechanisms for tracking poverty-related spending and securing transparency in military spending. They also agreed that the track records for these countries should include a focus on rebuilding capacity and improving overall governance. Many Directors agreed that, if significant progress had been made toward macroeconomic stability, good governance, capacity building, and monitoring, the Bank and the IMF could consider an early decision point for postconflict countries combined with a relatively longer interim period. The Bank and the IMF would consider front-loading HIPC relief to the extent possible, taking into account the countries' debt-service profile and absorptive capacity. In some cases, access to HIPC relief would require the

Figure 5.2
Reduction of Debt Stocks for 22 HIPC Decision Point Countries[1]
Status as of end-April 2001



Source: HIPC Initiative country documents.
[1]Excluding Chad, which reached its decision point in May 2001.

resolution of arrears to the Bank, IMF, and other institutions. To facilitate this, arrears clearance plans for individual countries would be worked out jointly and in consultation with other creditors.

Most countries emerging from conflict will require substantial technical assistance from both the World Bank and the IMF for rapid restoration of the critical functions of government. The Bank and IMF Boards have agreed that their staffs, in consultation with other providers of technical assistance, should develop an early assessment and an action plan for meeting these countries' needs. They have also asked the staffs to explore various options for financing the institutions' participation in this effort, and to report back to the Boards. IMF Executive Directors supported efforts to encourage bilateral donors to provide interest subsidies through a multidonor administered account to be established by the IMF, and welcomed the early indication by some members of their willingness to consider contributing to such an account.

PRSP Approach

Formulated by a country's government, with the participation of civil society, donors, and international organizations, the Poverty Reduction Strategy Paper (PRSP)[3] is intended to provide a framework for concessional assistance from the IMF and the World Bank. There is no single blueprint for PRSPs: each paper is expected to reflect individual country circumstances. But each country's paper will describe the poor's main characteristics and outline the appropriate antipoverty strategies over the medium and long term. Countries are expected to provide an annual progress report on the implementation of the strategies and a full update of the PRSP every three years. And each country's PRSP should emerge out of a local, broad-based participatory process that integrates poverty-reducing measures into a coherent, growth-oriented macroeconomic framework.

As part of the preparation process, a country must identify key obstacles to faster growth and poverty reduction, specify realistic and trackable poverty reduction goals, and set out macroeconomic, structural, and social policies for reaching those goals. To make it easier to track programs in the short term, countries have to set annual targets to correspond to their longer-term poverty reduction goals. The PRSP also provides a means of identifying the financing needs associated with various poverty reduction programs and incorporating them in a sustainable fiscal and macroeconomic framework.

Progress to Date

At a September 2000 meeting to discuss progress in implementing PRSPs, IMF Executive Directors welcomed the progress achieved to date. They were

[3]The PRSP replaced the Policy Framework Paper (PFP) that underpinned reform programs supported by the IMF's former Enhanced Structural Adjustment Facility.

Box 5.3
IMF–World Bank Joint Visit to Africa

In February 2001, IMF Managing Director Horst Köhler and World Bank President James Wolfensohn made the first joint visit to Africa by heads of the Bretton Woods Institutions. Meeting with 22 African heads of state during the visit to Kenya, Mali, Nigeria, and Tanzania, their primary purpose was to listen to the views of African leaders about how Africa can accelerate growth, reduce poverty, and position itself to benefit from globalization.

First and foremost, African leaders stressed the need to deal with conflict and weak governance, emphasizing that sustainable poverty reduction and growth must start with—and build on—peace, democracy, and effective institutions. Second, they recognized that prospects for rapid growth will depend on building a strong human resource base, which requires strengthening support for education and health. In particular, they emphasized the critical need to combat the devastating effects of HIV/AIDS, and shared their experiences in trying to combat this pandemic in their countries. Third, they stressed the common goal of positioning Africa to benefit from globalization and agreed that stronger regional cooperation and integration were indispensable to increase the competitiveness of their economies. They underscored the critical importance of industrial countries' opening of their markets to African goods, and of access to global capital markets for promoting and sustaining growth. But they also emphasized that for the near term, the availability of adequate concessional flows would be key to helping many African countries realize their potential for higher growth to reduce poverty (see Table 5.2). All the African leaders welcomed the recent progress under the Initiative for Heavily Indebted Poor Countries; some called for further action on debt cancellation. They also welcomed the move toward more streamlined conditionality by the IMF and the Bank and stressed the importance of aligning conditionality with country-owned development strategies.

In response, Messrs. Köhler and Wolfensohn stressed that African countries should expect support from the international community commensurate with their efforts to design and implement sound poverty reduction and growth strategies—"help for self-help." Deeply impressed by African leaders' conviction that Africa's future lies in its own hands, and by their commitment to far-reaching changes that will allow the continent to attack the roots of poverty, Messrs. Köhler and Wolfensohn pledged the readiness of the IMF and the Bank to support their countries in these endeavors. In this context, they stressed that they will do all they can to assist Africa in the fight against HIV/AIDS, including by working with others to supplement International Development Association resources with grant financing. Discussions also underscored the need for greater support by the international community for the efforts undertaken by African countries. Apart from the essential need for opening the markets of developed countries to all of the exports of African and other poor countries, developed countries also need to increase their official development assistance and to improve its effectiveness, including by aligning it fully with the country-led poverty reduction strategy process. Finally, the discussions reinforced the conviction of the Bank and the IMF that their collective efforts on the Poverty Reduction Strategy Paper approach and the enhanced HIPC Initiative are central to successfully supporting poor countries in attacking poverty and enhancing growth.

encouraged by the favorable response in countries engaged in preparing nationally owned poverty reduction strategy documents and the extent to which countries had drawn on their own prior experience. They noted that, in many cases, the information provided, the degree of participation, and the level of political authority involved in the preparation of Interim PRSPs was much higher than had been envisaged. (Countries were not expected to carry out participatory processes in preparing Interim PRSPs, but rather to develop action plans and timetables for putting such processes in place in the context of their full PRSPs.)

At the same time, the Board acknowledged the challenges facing countries as they move to prepare full PRSPs and attempt to develop well-specified and prioritized programs from what were, in some cases, only broad statements of intent in their Interim PRSPs. These challenges included, among other things, reliance on inadequate poverty data and limited institutional and analytical capacity on the part of both governments and civil society, and the need to ensure that broad-based participation did not undermine the authority of national parliaments and existing democratic processes. Directors therefore welcomed the current or planned involvement of multilateral and bilateral development partners in supporting countries' efforts to upgrade data and to build institutional capacity. They considered that efforts must be redoubled to ensure that the views of the poor were taken into account in developing poverty reduction strategies.

At an April 2001 meeting, IMF Executive Directors noted that the PRSP approach was still in its early stages of development. Calendar year 2000 was dominated by the preparation of Interim PRSPs, many of which were provided to the Executive Boards of the Bank and the IMF in connection with decision points under the enhanced HIPC Initiative. As of March 31, 2001, the Boards had considered 32 Interim PRSPs and four full PRSPs, the majority of which had been prepared by African countries.

Table 5.2
Net Aid Flows by Major Donors, 1990–2000[1]

	Current Prices							2000 at Constant 1999 Prices[3]	Change 1999/00 At Current Prices[3]	Change 1999/00 At Constant Prices[3]	Share of Donor's GNP 2000
	1990	1995	1996	1997[2]	1998[2]	1999[2]	2000[2]				
	(In billions of U.S. dollars)								*(Percent)*		
Canada	2.5	2.1	1.8	2.0	1.7	1.7	1.7	1.7	1.4	–2.2	0.25
Denmark	1.2	1.6	1.8	1.6	1.7	1.7	1.7	1.9	–4.0	7.3	1.06
France	7.2	8.4	7.5	6.3	5.7	5.6	4.2	4.9	–25.1	–13.9	0.33
Germany	6.3	7.5	7.6	5.9	5.6	5.5	5.0	5.8	–8.7	5.9	0.27
Italy	3.4	1.6	2.4	1.3	2.3	1.8	1.4	1.5	–24.3	–14.3	0.13
Japan	9.1	14.5	9.4	9.4	10.6	15.3	13.1	12.6	–14.8	–17.9	0.27
Netherlands	2.5	3.2	3.2	2.9	3.0	3.1	3.1	3.4	–1.9	10.0	0.82
Sweden	2.0	1.7	2.0	1.7	1.6	1.6	1.8	2.0	11.2	22.3	0.81
United Kingdom	2.6	3.2	3.2	3.4	3.9	3.5	4.5	4.7	29.2	35.6	0.31
United States	11.4	7.4	9.4	6.9	8.8	9.1	9.6	9.4	4.8	2.7	0.10
G-7 donors	40.9	44.7	41.3	35.1	38.6	42.6	39.4	40.6	–7.3	–4.8	0.19
Other DAC donors[4]	12.0	14.2	14.2	13.2	13.5	13.8	13.6	15.0	–1.5	8.3	0.46
Total DAC	53.0	58.9	55.4	48.3	52.1	56.4	53.1	55.5	–5.9	–1.6	0.22
(in percent of GNP)	0.33	0.27	0.25	0.22	0.23	0.24	0.22	. . .	. . .	. . .	. . .

Source: Organization for Economic Cooperation and Development (OECD).
[1]Overseas development assistance (ODA) disbursements by OECD Development Assistance Committee (DAC) member countries. The DAC is the principal body through which the OECD deals with issues related to cooperation with developing countries. Data are based on total amounts provided by donors; they exclude debt forgiveness of non-ODA claims. Data for 2000 are provisional.
[2]Not strictly comparable to pre-1997 data owing to the reclassification in 1997 of some former ODA recipients.
[3]Prices and exchange rates.
[4]Australia, Austria, Belgium, Finland, Ireland, Luxembourg, New Zealand, Norway, Portugal, Spain, and Switzerland.

Challenges Ahead

During the remainder of calendar 2001, about 20 countries may complete their first full PRSPs according to the timetables projected in their Interim PRSPs. Many of these are heavily indebted poor countries (HIPCs) that reached their decision points in 2000 and seek to move toward their completion points under the HIPC Initiative. As the process moves forward, it will be essential that the quality of full PRSPs—both in terms of their content and participatory processes—not be sacrificed to speed of preparation. At the same time, expectations regarding the content of countries' first full PRSPs and the processes involved in their preparation need to take account of individual country circumstances and capacity limitations, along with the fact that full PRSPs are "living documents." All concerned—countries as well as their development partners (including the Bank and the IMF)—are learning by doing in the PRSP context, and strategies will evolve in the light of experience. Hence, the number (and even the initial quality) of PRSPs will be only a preliminary indicator of success. The strategy will stand or fall on the basis of sustained poverty reduction and growth efforts at the country level and their measurable outcomes, which are likely to emerge only over a period of years.

Critical challenges need to be faced in the remainder of 2001. With respect to country strategies, there will be a need to help countries move from descriptions of their existing policies and spending patterns to preparation of new policy and spending options that are focused more sharply and rigorously on poverty reduction outcomes and on accelerating growth. For the poverty reduction effort as a whole, it will be necessary to support the transition from strategy preparation to implementation, including the mobilization of the funding needed for the resulting strategy. And action by all partners will be needed to make the PRSP a truly inclusive process that serves as a common framework for support by all development partners in each country.

Facilitating the PRSP Process

The World Bank and IMF took a number of steps during the second half of FY2001 to facilitate the PRSP process, particularly with regard to the transition to full PRSPs, and to incorporate the PRSP approach into their financial assistance programs. In response to countries' requests for greater clarity regarding the basis upon which Bank and IMF staffs will assess PRSPs, the staffs prepared guidelines for Joint Staff Assessments of full PRSPs, which outline the key areas

that both institutions will focus on when assessing PRSPs. These guidelines will be revised periodically in light of country experience and feedback from development partners. The Bank and IMF are also expanding learning activities for PRSP country teams, and are working actively with development partners to support country capacity building and ownership.

Supporting Tracking of Poverty-Reducing Public Spending

In February 2001, the IMF and Bank Executive Boards reviewed a joint paper on tracking poverty-related spending. IMF Executive Directors emphasized the importance of heavily indebted poor countries tracking all poverty-reducing spending to ensure that budgetary savings from HIPC relief were being used for their intended, poverty-related purposes. It was also important for the credibility of the HIPC Initiative to provide assurances that debt relief, as well as concessional assistance more broadly, was being put to its intended use. In this context, Directors considered strengthening public expenditure management—an urgent priority to help ensure that the HIPC Initiative results in appropriate poverty-reducing programs.

Once poverty-reducing spending was identified, Directors observed, tracking it required effective government accounting and audit systems. On the basis of the preliminary assessments of public expenditure management systems in 25 HIPCs undertaken by Bank and IMF staff, Directors expressed concern that most HIPCs did not have the capacity, as part of their public expenditure management systems, to produce comprehensive information on the uses of HIPC assistance. In the majority of cases, substantial upgrading of existing systems appeared to be required to attain this standard. Directors agreed that, in the absence of a comprehensive public expenditure management system, it could be appropriate for a country to use a "virtual" poverty fund, through which selected items in the budget identified as poverty reducing are tagged and monitored as part of overall budget implementation.

While these funds could not substitute for putting in place effective public expenditure management systems over the medium term, they could serve as an intermediate bridging mechanism until more comprehensive expenditure management and tracking systems were developed. This approach would help lay the foundations for enhanced expenditure management systems over the medium term, while avoiding delays in delivering urgently needed debt relief and concessional assistance to eligible countries.

Directors emphasized that the division of labor between the IMF and the World Bank should be in line with the traditional focus of the IMF on macro-fiscal management, and of the Bank on structural and institutional issues related to poverty reduction and capacity building.

Supporting Social Impact Analysis

Ideally, social impact analysis should be an integral part of PRSP preparation and carried out under the leadership of national authorities. In the near term, given the limitations on national capacity in this area, countries must draw on assistance from bilateral and multilateral agencies with relevant expertise—including the IMF and the Bank—both to help carry out the work and to strengthen national capacity for social analysis. The IMF will also contribute to this exercise in its areas of expertise (that is, macroeconomic policy and related topics) and will draw on and integrate into its policy advice relevant analysis on the social impact of key policies supported by Poverty Reduction and Growth Facility (PRGF) arrangements. The IMF recognizes the need to assist countries in integrating social impact analysis into the PRSP process as speedily as possible, while also recognizing that early expectations need to be tempered in this area, owing to its inherent complexity and the institutional capacity constraints on the part of countries preparing PRSPs.

Refining Lending Instruments and Streamlining Conditionality

The IMF and the Bank are working together to make their own operations more supportive of countries' efforts to implement poverty reduction strategies. One aspect of this effort is streamlining and focusing conditionalities on the policies and public actions contained in countries' poverty reduction strategies with the objective of linking support to country ownership. As part of the FY2001 conditionality review (Chapter 4), IMF Executive Directors called for a more streamlined and focused application of conditionality, and early experience with new three-year PRGF arrangements suggests that there has already been positive movement in this regard. The Bank is introducing the Poverty Reduction Support Credit (PRSC) as an IDA lending instrument that is sufficiently flexible and broadly based to ensure suitable coverage of social and structural policy areas. Over time, the Bank expects PRSCs to become an increasingly important element of the Bank's overall support for low-income countries' poverty reduction strategies. Thus, IMF conditionality will not normally extend into social and structural policies outside its areas of expertise except when these areas are critical to a country's macroeconomic objectives. Where possible, conditionality on these aspects of policy would be covered instead under IDA lending operations, especially PRSCs as they are phased in. There may, however, be cases during the phase-in period where the PRGF may take on a broader scope and include some structural measures outside the IMF's primary areas of

Table 5.3
Trade Restrictiveness by Geographic Area[1]
(At year-end)

	1997	1998	1999	2000	1997–2000
	(Percent of countries in each ratings group)				*(Change over period)[2]*
World					
Open	46.9	50.8	53.1	56.5	9.6
Moderate	29.9	29.9	29.9	29.4	–0.6
Restrictive	23.2	19.2	16.9	14.1	–9.0
Asia					
Open	43.3	50.0	53.3	56.7	13.3
Moderate	33.3	30.0	30.0	26.7	–6.7
Restrictive	23.3	20.0	16.7	16.7	–6.7
Baltics, Russia, and other (BRO)					
Open	53.3	53.3	60.0	60.0	6.7
Moderate	26.7	26.7	20.0	20.0	–6.7
Restrictive	20.0	20.0	20.0	20.0	0.0
Europe					
Open	79.4	82.4	85.3	91.2	11.8
Moderate	14.7	17.6	14.7	8.8	–5.9
Restrictive	5.9	0.0	0.0	0.0	–5.9
Middle East and North Africa					
Open	35.0	35.0	35.0	35.0	0.0
Moderate	15.0	15.0	10.0	15.0	0.0
Restrictive	50.0	50.0	55.0	50.0	0.0
Sub-Saharan Africa					
Open	29.5	36.4	36.4	43.2	13.6
Moderate	31.8	31.8	40.9	43.2	11.4
Restrictive	38.6	31.8	22.7	13.6	–25.0
Western Hemisphere					
Open	44.1	47.1	50.0	50.0	5.9
Moderate	50.0	50.0	47.1	47.1	–2.9
Restrictive	5.9	2.9	2.9	2.9	–2.9

Source: IMF's Trade Policy Information Database (TPID).

[1]Based on the IMF's Trade Restrictiveness Index. This index weighs tariff and nontariff barriers to provide a broad quantitative measure of a country's trade restrictiveness relative to all IMF members and a basis for measuring progress over time toward trade openness. On the basis of a 10-point scale, countries with ratings of 1 to 4 are considered to be "open" with no significant barriers to most trade; ratings of 5 or 6 are considered to be "moderate"; and countries with ratings of 7 to 10 are considered to have "restrictive" trade policies. The index does not incorporate all aspects of the trade regime, such as measures of trade dispersion, maximum tariffs, exemptions, transparency, and the effect of export taxes. Moreover, since in the calculation of the index, nontariff barriers are limited to three categories and the lowest tariff band is broad (1–10 percent), important trade reforms can be implemented without changing the index rating.

[2]In percentage points.

expertise because of their importance to the overall success of the country's program. In these cases, the specification and assessment of such conditions will be done in consultation with Bank staff. These initiatives will allow the IMF and the Bank to serve countries better as they move from strategy preparation to public action in support of poverty reduction.

Promoting Trade in the Poorest Countries

Trade is vital for growth, poverty reduction, and long-term external debt sustainability, but over the past two decades the world's poorest countries have seen their share of world trade decline. The reasons for their increasing marginalization are complex—in part reflecting deep-seated structural problems, weak institutions, poor governance, and distortionary policies that perpetuate anti-export biases at home, but protection in foreign markets has also played a role. Action is needed, therefore, on two fronts: the poorest countries need to act to help themselves, by pursuing sound policies, building strong institutions, and creating a favorable environment for investment; the barriers facing their exports need to be reduced and, when possible, eliminated. These barriers include both subsidies for domestic producers in advanced economies and direct limitations on access for the products of developing countries.

In recent years, the general trend across nearly all regions—as shown by the IMF's Trade Restrictiveness Index ratings (see Table 5.3)—has been one of reducing trade barriers. There remains, however, considerable scope for further liberalization in certain sectors. Protection in industrial countries remains high on agriculture, textiles, and clothing, and other labor-intensive manufacture, and inhibits the diversification of poorer countries' exports toward higher value-added products. Rich countries could contribute substantially to poverty reduction, and would benefit themselves, by opening their markets to products from poor countries' agricultural sectors—the sectors that currently make up the bulk of these economies. Just as important, the advanced economies would promote poverty reduction and enhance their own welfare by providing access to exports of manufactured goods by poor countries, which are important for them to be able to diversify and develop their economies. A lowering of barriers to rich countries' export markets would also help HIPCs

attract the vital long-term private investment flows needed to build and diversify their export sectors.

Recent World Bank studies show that if the United States, the European Union, Canada, and Japan were to give unrestricted market access to the 49 Least Developed Countries (as identified by the United Nations General Assembly), their net exports would increase by about 11 percent, with non-oil exports from Africa expanding by 14 percent. For this reason, recent market openings by a number of industrial countries are welcome initiatives, but it is important for all countries to take steps to ensure meaningful market access for developing country exports. In this connection, the IMFC, in its April 2001 communiqué, urged all countries to find common ground for launching new multilateral trade negotiations this year.

The Bank and the IMF took steps in FY2001 to help poor countries design trade policies for pro-poor growth in the context of the PRSP process. These efforts aim to ensure that reform packages promote growth and protect the poor during the transition period to greater openness. For the Least Developed Countries, the IMF is participating, along with other multilateral agencies, in a revitalized Integrated Framework for Trade-Related Technical Assistance. This initiative is designed to help countries preparing their PRSPs to analyze options for trade integration and identify priorities for trade-related technical assistance within a framework for overall development. On a pilot basis, a Trust Fund for Integrated Framework Activities was established during the financial year with support from bilateral donors.

CHAPTER 6

Financial Operations and Policies in FY2001

The IMF is a cooperative institution that lends money to its member countries experiencing temporary balance of payments financing problems on the condition that the borrower undertake economic adjustment and reform policies to address these difficulties. In recent years, for example, the IMF has played a central role in resolving a series of economic and financial crises in emerging market countries in Asia and Latin America, and in Russia and Turkey. The IMF is also actively engaged in promoting economic growth and poverty reduction in its poorer member countries by providing financing on special terms in support of efforts to stabilize economies, implement structural reforms, and achieve sustainable external debt positions.

The IMF extends financing to member countries through three channels:

1. *Regular operations.* The IMF provides loans to member governments from a revolving pool of funds consisting of members' capital subscriptions (quotas). These loans are extended under a variety of policies and facilities designed to address specific balance of payments problems. Interest is charged on the loans at market-related rates and with repayment periods that vary depending on the lending facility (see Table 4.1).

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

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

The key financial developments in FY2001 include:

- A reduction in outstanding IMF loans as improved conditions in the world economy and financial markets contributed to a moderation of new financing and facilitated the repayment of loans extended during the height of the 1997–99 financial crises.
- Intensifying efforts to assist the IMF's poorest members with implementation of initiatives to reduce the debt burdens of the heavily indebted poor countries and to focus the IMF's concessional lending activities more explicitly on poverty reduction.
- Introducing important changes to the IMF's loan policies to encourage early adoption of sound economic policies as a means of preventing crises and to discourage overly long and heavy use of IMF resources by member countries (see Chapter 4).
- Modifying the valuation of the SDR to take account of the introduction of the euro as the common currency for a number of IMF members and to reflect changes in global financial markets.

Regular Financing Activities

The IMF's regular lending activity is conducted through the General Resources Account (GRA), which holds the subscriptions of members (see Box 6.1). The bulk of the financing is provided under Stand-By Arrangements, which address members' balance of payments difficulties of a short-term cyclical nature, and under the Extended Fund Facility (EFF), which focuses on external payments difficulties arising from longer-term structural problems. Loans under Stand-By and Extended Arrangements can be supplemented with short-term resources from the Supplemental Reserve Facility (SRF) to assist members experiencing a sudden and disruptive loss of capital market access. All loans incur interest charges and can be subject to surcharges based on the type and duration of the loan, and the

Box 6.1
IMF's Financing Mechanism

The IMF's lending is financed from the capital subscribed by member countries. Each country is assigned a quota that determines its maximum financial commitment to the IMF. A portion of the quota is provided in the form of reserve assets (foreign currencies acceptable to the IMF or SDRs) and the remainder in the member's own currency. The IMF extends financing by providing reserve assets to the borrower from the reserve asset subscriptions of members or by calling on countries that are considered financially strong to exchange their currency subscriptions for reserve assets (Box 6.2).

The loan is disbursed or drawn by the borrower "purchasing" the reserve assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower "repurchasing" its currency from the IMF with reserve assets. The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate (Box 6.7) and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding.

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

The "purchase/repurchase" approach to IMF lending affects the composition of the IMF's resources but not the overall size. An increase in loans outstanding will reduce the IMF's holdings of reserve assets and the currencies of members that are financially strong, and, at the same time, increase the IMF's holdings of the currencies of countries that are borrowing from the IMF. The amount of the IMF's holdings of reserve assets and the currencies of financially strong countries determines the IMF's lending capacity (liquidity) (Box 6.3).

amount of IMF credit outstanding. Repayment periods also vary by facility (see Table 4.1).

Lending

Favorable global economic and financial conditions contributed to a decline in new IMF commitments in FY2001. Total commitments fell to SDR 14.5 billion in FY2001 from SDR 23.5 billion in FY2000 (Table 6.1). The IMF approved nine new Stand-By Arrangements involving commitments totaling SDR 2.1 billion,[1] and two commitments under Stand-By Arrangements already in place were increased by SDR 11 billion. Only one new EFF Arrangement was approved, for the former Yugoslav Republic of Macedonia, for SDR 24 million. The commitment under Yemen's Extended Arrangement was reduced by SDR 37 million.

The largest IMF commitments during the year reflected additions to existing Stand-By Arrangements for Argentina and Turkey, including the provision of shorter-term financing under the SRF. In December 2000, the arrangement with Turkey was increased by SDR 5.8 billion (all from the SRF) to deal with a loss of market confidence that threatened progress on macroeconomic stabilization and structural reform under the program adopted by Turkey in 1999.[2] In January 2001, Argentina's Stand-By Arrangement was increased by SDR 5.2 billion (of which SDR 2.1 billion involved SRF resources) as part of an international effort to support the country's reform program and improve its access to international capital markets.

In a continuation of recent trends, a growing volume of IMF financing commitments under Stand-By and Extended Arrangements are being treated as precautionary, with borrowers indicating that they do not intend to draw on the funds committed to them by the IMF. Drawings were made under only 16 of the 37 Stand-By and Extended Arrangements in place during the year (see Appendix II, Table II.7). At the end of April 2001, undrawn balances under the 25 Stand-By and Extended Arrangements still in effect amounted to SDR 22.4 billion, about two-thirds of the total amount committed (SDR 31.7 billion).

Financing provided under the IMF's facilities for emergency assistance and compensatory financing was modest in FY2001. Emergency postconflict assistance of SDR 138 million was provided to three countries (Republic of Congo, Sierra Leone, Federal Republic of Yugoslavia). No country received assistance under the Compensatory Financing Facility (CFF).

No commitments were made under the Contingent Credit Lines (CCLs) during the year. Changes were adopted as part of the review of IMF facilities with the aim of making the facility more attractive to potential users (see Chapter 4).

During the financial year, the IMF disbursed SDR 9.5 billion in loans from its General Resources Account. The amount of new credit was more than offset by continued substantial repayment of loans extended in earlier years. Total repayments were

[1] As of April 30, 2001, SDR 1 = US$1.26579.

[2] A further commitment of SDR 6.4 billion of stand-by funds was made to Turkey in May 2001.

Table 6.1
IMF Financial Assistance Approved in FY2001

Member	Type of Financial Assistance	Date of Approval	Amount[1] Approved (in millions of SDRs)
Argentina	Augmentation of Stand-By	January 12, 2001	5,186.9
Benin	Three-year PRGF	July 18, 2000	27.0
Cameroon	Three-year PRGF	December 21, 2000	111.4
Congo, Rep. of	Emergency postconflict assistance	November 22, 2000	10.6
Croatia	14-month Stand-By	March 19, 2001	200.0
Ethiopia	Three-year PRGF	March 22, 2001	86.9
Gabon	18-month Stand-By	October 23, 2000	92.6
Georgia	Three-year PRGF	January 12, 2001	108.0
Ghana	Augmentation of PRGF	August 24, 2000	37.0
Guinea-Bissau	Three-year PRGF	December 15, 2000	14.2
Kenya	Three-year PRGF	August 4, 2000	150.0
	Augmentation of PRGF	October 18, 2000	40.0
Lao People's Dem. Rep.	Three-year PRGF	April 25, 2001	31.7
Latvia	20-month Stand-By	April 20, 2001	33.0
Lesotho	Three-year PRGF	March 9, 2001	24.5
Macedonia (former	Three-year PRGF	December 18, 2000	10.3
Yugoslav Rep. of)	Three-year Extended Arrangement	November 29, 2000	24.1
Madagascar	Three-year PRGF	March 1, 2001	79.4
	Augmentation of PRGF	June 23, 2000	24.4
Malawi	Three-year PRGF	December 21, 2000	45.1
Moldova	Three-year PRGF	December 21, 2000	110.9
Niger	Three-year PRGF	December 22, 2000	59.2
Nigeria	12-month Stand-By	August 4, 2000	788.9
Pakistan	10-month Stand-By	November 29, 2000	465.0
Panama	21-month Stand-By	June 30, 2000	64.0
Peru	12-month Stand-By	March 12, 2001	128.0
Sierra Leone	Emergency postconflict assistance	September 13, 2000	10.4
Sri Lanka	14-month Stand-By	April 20, 2001	200.0
Turkey	Augmentation of Stand-By	December 21, 2000	5,784.0
Uruguay	22-month Stand-By	May 31, 2000	150.0
Vietnam	Three-year PRGF	April 6, 2001	290.0
Yemen	Reduction of Extended Arrangement	February 28, 2001	(33.0)
Yugoslavia, Federal Rep. of (Serbia/Montenegro)	Emergency postconflict assistance	December 20, 2000	116.9

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

SDR 11.2 billion, including advance repayments by Korea (SDR 2.0 billion) and Mexico (SDR 2.3 billion). Consequently, IMF credit outstanding at the end of the financial year amounted to SDR 42.2 billion, a little lower than a year earlier and some SDR 18 billion below the peak attained during the recent financial crises.

A review of IMF facilities resulted in a number of other important measures affecting the duration and size of future IMF financing under Stand-By and Extended Arrangements (see Chapter 4). The new policies on time-based early repurchase expectations and the level-based interest surcharge apply to drawings made after the date of the decision by the Executive Board (November 28, 2000). As of April 30, 2001, financing of SDR 3.7 billion was subject to early repurchase expectations under these policies; at that time no outstanding credit was subject to the level-based surcharge.

Resources and Liquidity

The IMF's lending is financed primarily from the fully paid-in capital (quotas) subscribed by member countries in the form of reserve assets and currencies (see Box 6.1).[3] Only a portion of the resources are readily available to finance new lending, however, because of prior commitments and IMF policies that limit the use

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

Box 6.2
Financial Transactions Plan

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

The amounts transferred and received by these members are managed to ensure that their creditor positions in the IMF remain broadly the same in relation to their quota, the key measure of each member's rights and obligations in the IMF. This is achieved in the framework of an indicative quarterly plan for financial transactions. The IMF publishes on its website the outcome of the financial transactions plan for the quarter ending three months prior to publication. As of April 30, 2001, the 38 members listed below were participating in financing IMF transactions. In addition, Korea was included in the plan since it was making advance repayments under the IMF's early repurchase policy.

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

of the currencies of those members that are financially strong (see Boxes 6.2 and 6.3). General reviews of IMF quotas are conducted at five-yearly intervals during which adjustments are proposed in the overall size and distribution of quotas to reflect developments in the world economy. A member's quota can also be adjusted separately from a general review to take account of major developments. The IMF can also borrow to supplement its quota resources (see Box 6.4).

The IMF's financial position, which improved significantly following the 1999 increase in quotas, remained strong at the close of the financial year. On April 30, 2001, the IMF had SDR 78.7 billion in usable quota resources available for new lending, compared with SDR 74.8 billion a year earlier and nearly four times higher than the low point prior to the quota increase. In addition to the net reflows noted earlier, a number of Stand-By and Extended Arrangements with large undrawn balances expired (including Korea, Mexico, and Russia), which made about SDR 7.0 billion in funds available for new lending. Finally, three new countries were considered sufficiently strong for their currencies to be included in the IMF's financial operations (Korea,[4] Oman, and Qatar), and an increase in China's quota provided additional usable funds.

Other Developments

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

- China's quota was increased to reflect the resumption of Chinese sovereignty over Hong Kong SAR. The increase of SDR 1,682.0 million raised China's quota to SDR 6,369.2 million, or 3.0 percent of total quotas (Box 6.5).
- The Executive Board considered a report and recommendations by an external panel of independent experts on possible reform of the formulas used to calculate member quotas. A staff commentary, including a preliminary quantification of the recommended formula, was also reviewed.[5] The Board agreed that the quota formulas should be simplified and updated to reflect developments in the world economy, including the growing role of financial markets. However, concern was expressed that the formula recommended by the panel of experts could contribute to a further concentration of quotas in the largest IMF members. Executive Directors agreed to consider possible alternative formulas following additional analysis by staff (see Box 6.6).
- In December 2000, the Federal Republic of Yugoslavia (Serbia/Montenegro) fulfilled the neces-

[4]Korea was included for early repayment only; the currency will be used for transactions beginning in September 2001.

[5]The report, commentary, and a subsequent further quantification of the formula proposed by the experts have been published on the IMF's website.

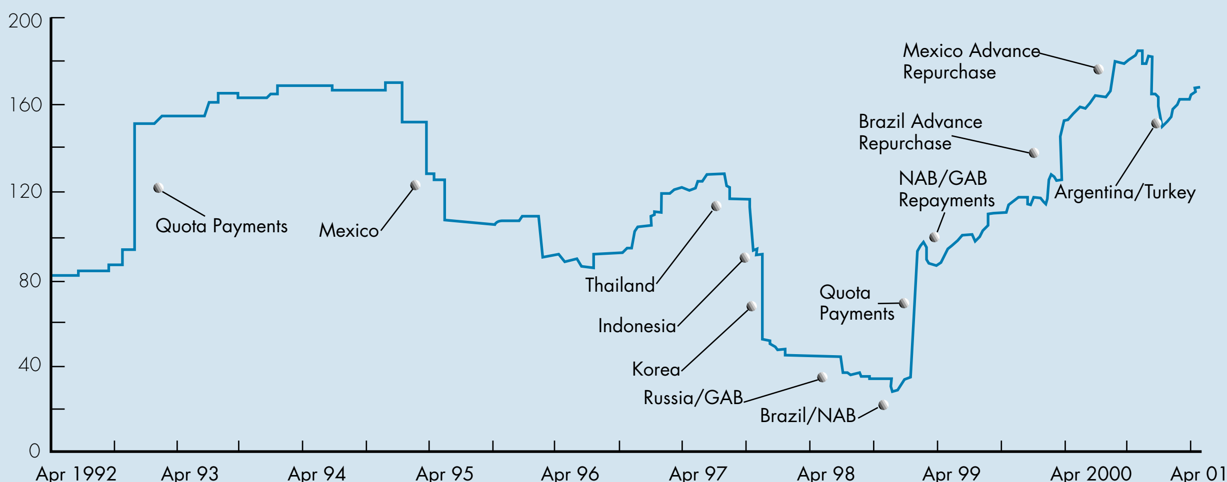
Box 6.3
IMF Financial Resources and Liquidity

While the IMF's lending and other transactions are financed primarily from the quota subscriptions of member countries, only a portion of these funds is available to finance new lending. The IMF's *usable resources* consist of its holdings of the currencies of financially strong members included in the financial transactions plan (Box 6.2) and SDRs. Moreover, some of these usable resources will have been committed under existing loans and must be retained for working balances. Thus, the IMF's *net uncommitted usable resources* represent the funds available for new lending and to meet requests for encashment of creditor liquid claims (reserve positions) on the IMF. As of April 30, 2001, the IMF's net uncommitted usable resources amounted to SDR 78.7 billion, about 37 percent of total quotas (see Schedule 2 to the financial statements of the General Resources Account). Detailed information on the IMF's liquidity position is published monthly on the IMF's website.

The IMF's two standing *borrowing arrangements*—the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB)—can provide up to SDR 34 billion in supplementary resources in specified circumstances (Box 6.4). Any such borrowing increases the creditor members' reserve positions and thus adds to the IMF's liquid liabilities.

The IMF must maintain sufficient liquidity to meet current and prospective financing needs. A *liquidity ratio* has traditionally been used to assess the IMF's liquidity position, which is the ratio of the IMF's net uncommitted usable resources to its liquid liabilities. As of April 30, 2001, the liquidity ratio was 168.4 percent, more than five times the low point prior to the 1999 increase in IMF quotas (Figure 6.1).

Figure 6.1
IMF Liquidity Ratio, April 1992–April 2001
(In percent)



sary conditions to succeed to membership of the former Socialist Federal Republic of Yugoslavia and consented to, and paid for, a quota of SDR 467.7 million.

- As of April 30, 2001, 174 member countries accounting for more than 99 percent of total quotas proposed in 1998 under the Eleventh General Review of Quotas had consented to, and paid for, their quota increases. Three member countries eligible to consent to the proposed increases in their quotas had not done so by the end of the financial year, and six countries were ineligible to consent to their proposed increases because they are in arrears to the IMF. On January 16, 2001, the Executive Board approved an extension of the period for consent to, and payment of, quota increases under the Eleventh Review until July 31, 2001.[6] At the close of the financial year, total quotas amounted to about SDR 212.4 billion. The quotas of individual members at the end of April 2001 are shown in financial statements of the General Resources Account, Schedule 1 (see Appendix IX).

Concessional Financing

The IMF provides concessional assistance to help its poorest members boost their economic growth and

[6]Subsequently, this deadline was extended to January 31, 2002.

Box 6.4

The IMF Can Borrow to Supplement Quota Funding

The IMF's Articles of Agreement authorize it to borrow if necessary to supplement its members' quota subscriptions. To date, the IMF has borrowed only from official sources (such as governments and central banks), but it may also borrow from private sources. The IMF has two sets of credit arrangements—the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB)—whose purpose is to make resources available to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. The NAB is the facility of first and principal recourse (unless a GAB participant requests the use of IMF resources, in which case a proposal for calls may be made under either of the arrangements). The total amount of resources available to the IMF under both arrangements combined is up to SDR 34 billion, double the amount available under the GAB alone.

General Arrangements to Borrow. The GAB are a set of arrangements under which 11 participants (industrial countries or their central banks) have agreed to provide resources to the IMF to forestall or cope with an impairment of the international monetary system (see Table 6.2). The most recent activation of the GAB was in 1998, the first in 20 years, and was in support of the IMF's lending to Russia at that time.

New Arrangements to Borrow. The NAB, which entered into effect in 1998, are a new set of credit arrangements between the IMF and 25 members and institutions (see Table 6.3). The NAB have not replaced the existing GAB, which remain in force. The first, and thus far only, activation of the NAB was in December 1998 to finance the IMF's support for Brazil.

Borrowing under both the GAB and NAB was repaid in March 1999, following the boost to the IMF's liquidity arising from the increase in IMF resources through quota payments.

Table 6.2

General Arrangements to Borrow (GAB)

Participant	Amount (In millions of SDRs)
Belgium	595.0
Canada	892.5
Deutsche Bundesbank	2,380.0
France	1,700.0
Italy	1,105.0
Japan	2,125.0
Netherlands	850.0
Sveriges Riksbank	382.5
Swiss National Bank	1,020.0
United Kingdom	1,700.0
United States	4,250.0
Total	**17,000.0**
Associated Agreement with Saudi Arabia	1,500.0
Total	**18,500.0**

Table 6.3

New Arrangements to Borrow (NAB)

Participant	Amount (In millions of SDRs)
Australia	810
Austria	412
Belgium	967
Canada	1,396
Denmark	371
Deutsche Bundesbank	3,557
Finland	340
France	2,577
Hong Kong Monetary Authority	340
Italy	1,772
Japan	3,557
Korea	340
Kuwait	345
Luxembourg	340
Malaysia	340
Netherlands	1,316
Norway	383
Saudi Arabia	1,780
Singapore	340
Spain	672
Sveriges Riksbank	859
Swiss National Bank	1,557
Thailand	340
United Kingdom	2,577
United States	6,712
Total	**34,000**

reduce poverty through the Poverty Reduction and Growth Facility (PRGF) and in the context of the Initiative for Heavily Indebted Poor Countries (HIPCs) (see Chapter 5). In FY2001, the financing of the PRGF and the HIPC Initiative was largely completed, with significant progress in obtaining bilateral contributions and in securing the full use of the investment income on the profits from the off-market gold transactions undertaken in FY2000 (see below). A total of 37 member countries received PRGF financing during FY2001, and 23 countries had received financial commitments under the HIPC Initiative by the end of the financial year.

Box 6.5
China's Quota Increase

In 1997, the Chinese authorities requested a special increase in China's quota to better reflect its position in the world economy following the resumption of Chinese sovereignty over Hong Kong SAR. The request was made at a late stage of the Eleventh General Review of Quotas, and the Executive Board decided to complete the review on the understanding that it would return to China's request after the general review.

The Executive Board considered the request in 2000 and on January 4, 2001, recommended to the Board of Governors an increase in China's quota from SDR 4,687.2 million to SDR 6,369.2 million, which amounts to 3.0 percent of total quotas. The Board of Governors approved the proposal on February 5, 2001, and the increase became effective when China consented to and paid the increased subscription on February 28, 2001.

The increase in China's quota was only the fourth time in the past 30 years that the IMF has provided a special increase to a member outside the regular general review of quotas (the other cases were China in 1980, Saudi Arabia in 1981, and Cambodia in 1994).

Poverty Reduction and Growth Facility (PRGF)

In 1999, the objectives of the IMF's concessional lending were modified to include an explicit focus on poverty reduction in the context of a growth-oriented economic strategy. The IMF supports, along with the World Bank, strategies elaborated by the borrowing country in a Poverty Reduction Strategy Paper, which is prepared with the participation of civil society and other development partners. Reflecting the new objectives and procedures, the IMF established the PRGF, in place of the Enhanced Structural Adjustment Facility (ESAF), to provide financing based on the Poverty Reduction Strategy Paper.

During FY2001, the Executive Board approved 14 new PRGF arrangements (Benin, Cameroon, Ethiopia, Georgia, Guinea-Bissau, Kenya, Lao People's Democratic Republic, Lesotho, Macedonia (FYR), Madagascar, Malawi, Moldova, Niger, and Vietnam) with commitments totaling SDR 1.2 billion; in addition, increases in existing commitments totaling SDR 101.4 million were approved for Ghana, Kenya, and Madagascar (Appendix II, Tables II.1 and II.5). Total PRGF disbursements amounted to SDR 0.6 billion during FY2001, compared with SDR 0.5 billion in FY 2000. As of the end of April 2001, 37 member countries' reform programs were supported by PRGF arrangements, with IMF commitments totaling SDR 3.3 billion and undrawn balances of SDR 2.0 billion. (Appendix II, Table II.5). During FY2001, the growth prospects and external positions of China, Egypt, and Equatorial Guinea were deemed by the Executive Board to have improved to the point where they were considered no longer eligible under the PRGF. As a result, the number of PRGF-eligible countries decreased from 80 in FY 2000 to the current 77.

Financing for the PRGF is provided through trust funds administered by the IMF that are separate from the IMF's quota-based resources. Loans and grant contributions from a broad spectrum of the IMF's membership constitute the bulk of the financing of the PRGF Trust. The Trust borrows resources at market or below-market interest rates from loan providers—central banks, governments, and government institutions—and lends them to PRGF-eligible borrowers at a highly concessional rate of interest. The PRGF Trust

Box 6.6
External Review of IMF Quota Formulas

In 1999, the IMF established an external panel of independent experts, the Quota Formula Review Group, to assess the adequacy of the formulas used to guide the determination of quotas and to make recommendations for reforms that take account of changes in the world economy and the international financial system and the increasing globalization of markets. The eight-member panel, chaired by Professor Richard Cooper (Harvard University), submitted a report that was considered by the Executive Board, along with a staff commentary, in August 2000.

The Quota Formula Review Group report provided information about the history and operation of the quota formulas, suggested guiding principles for future reforms, and presented recommendations to simplify and update the formulas. The Executive Board discussion revealed a wide range of views on the issues raised in the report and the staff commentary. Directors generally recognized the need to simplify the current formulas and to update them to take account of the growing role of capital flows. Concern was expressed, however, that a preliminary partial quantification of the formula recommended by the panel pointed toward a greater concentration of quotas among the largest industrial countries (later confirmed by more complete and updated staff calculations). Executive Directors agreed on the need to carry forward the work of the external panel with a view to developing quota formulas that more fully reflect members' roles in the world economy. The International Monetary and Financial Committee (IMFC) supported this view at their meeting in Prague in September 2000, and a work program has been adopted that provides for further consideration of alternative quota formulas prior to the 2001 Annual Meetings.

receives grant contributions to subsidize the rate of interest on PRGF loans and maintains a Reserve Account as security for loans to the Trust.

During FY2001, new borrowing agreements were concluded with Denmark (SDR 100 million) and Germany (SDR 350 million). As of the end of April 2001, the borrowing limit for loan resources of the PRGF Trust was SDR 11.5 billion, and total effective loan commitments to the PRGF Trust amounted to SDR 11.3 billion. The commitment period for PRGF Trust loans to eligible members runs through December 31, 2001, and available loan resources are expected to be fully committed by late 2001 or early 2002.

Contributions to the Subsidy Account enable loans from the PRGF Trust to be made at an annual interest rate of one half of one percent. The total value of bilateral subsidy contributions is estimated at SDR 3.5 billion. In addition, SDR 0.4 billion was transferred from the IMF's Special Disbursement Account to the Subsidy Account. This contribution by the IMF, including the interest it will earn, is valued at SDR 0.6 billion.

The framework for the PRGF envisages commitments under the current PRGF Trust through late 2001 or early 2002, to be followed by a four-year interim PRGF with a commitment capacity of about SDR 1.0 billion a year. The purpose of the interim PRGF will be the same as that of the current facility: to promote sustainable economic growth and achieve durable poverty reduction. The modalities of concessional lending for the period after 2005 will need to be reassessed closer to the time, but a substantial proportion of such lending is expected to be provided by the IMF's own resources accumulating in the PRGF Trust Reserve Account. These resources will become available as PRGF lenders are repaid and the security provided by the Reserve Account is no longer needed.

Enhanced HIPC Initiative

The HIPC Initiative, originally launched by the IMF and World Bank in 1996, was considerably strengthened last year to provide faster, broader, and deeper debt relief for the world's heavily indebted poor countries. By April 30, 2001, the IMF and the World Bank had brought 22 HIPC-eligible members to their decision points under the enhanced initiative and one (Côte d'Ivoire) under the original initiative. In addition, Chad reached the decision point in May 2001 (that is, after the end of FY2001).

The IMF provides HIPC Initiative assistance in the form of grants or interest-free loans that are used to service part of member countries' debt to the IMF. As of April 30, 2001, the IMF had committed SDR 1.3 billion in HIPC Initiative grants to 23 eligible countries (Benin, Bolivia, Burkina Faso, Cameroon, Côte d'Ivoire, The Gambia, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Tanzania, Uganda, and Zambia). One member (Uganda) reached its completion point under the enhanced HIPC Initiative during FY2001. Under the enhanced initiative, a portion of the resources committed at the decision point can be disbursed prior to the country reaching its completion point. As of April 30, 2001, total disbursements of HIPC Initiative assistance by the IMF amounted to SDR 476 million (see Table 6.4).

Financing of the HIPC Initiative and Interim PRGF

Grant resources. The financing of the IMF's participation in the enhanced HIPC Initiative and the subsidy requirements of the interim PRGF are administered through the PRGF-HIPC Trust. The total grant resources required for these initiatives are estimated at $3.8 billion (end-2000 net present value (NPV) terms),[7] of which HIPC Initiative assistance accounts for about two-thirds of the total financing requirement. The main elements of the financing package consist of contributions by member countries and by the IMF.

Bilateral pledges from member countries amount to about $1.5 billion in NPV terms and come from a wide cross section of the IMF's membership, demonstrating the broad support for the HIPC and PRGF initiatives. Altogether, 94 countries have pledged support: 27 advanced countries, 58 developing countries, and 9 countries in transition. As of April 30, 2001, effective bilateral contributions amounted to $1.4 billion in NPV terms, or 93 percent of total pledged contributions (see Appendix II, Table II.11).

The IMF's own contributions amount to $2.3 billion in NPV terms. The bulk of this contribution—$1.7 billion in NPV terms—comes from investment income on the net proceeds generated from off-market transactions in gold of 12.9 million troy ounces. The off-market transactions were completed in April 2000, generating net proceeds of SDR 2.226 billion (see *Annual Report 2000*, p. 71). These funds have been placed in the Special Disbursement Account (SDA) and invested for the benefit of the HIPC Initiative. On December 8, 1999, the IMF Executive Board authorized the transfer of nine-fourteenths of the investment income from net gold proceeds to be used for this purpose. Subsequently, on November 30, 2000, the IMF's Executive Board authorized the transfer of the remaining five-fourteenths of the investment income.

The IMF also contributes about $0.6 billion in NPV terms by forgoing compensation for the administrative

[7]Net present value is the value at a point in time of a series of future cash flows discounted at an assumed interest rate. The NPV approach facilitates comparison of flows with different terms.

Table 6.4
Commitments and Disbursements of HIPC Initiative Assistance, as of April 30, 2001
(In millions of SDRs)

Member	Amount[1] Committed	Amount[1] Disbursed[2]	Member	Amount[1] Committed	Amount[1] Disbursed
Benin	18.4	3.7	Mali	44.4	11.5
Bolivia	62.4	21.2	Mauritania	34.8	9.9
Burkina Faso	31.3	17.8	Mozambique	104.8	95.5
Cameroon	28.5	2.2	Nicaragua	63.0	
Côte d'Ivoire	14.4	—	Niger	21.6	0.4
Gambia	1.8	0.1	Rwanda	33.8	6.8
Guinea	24.2	2.4	São Tomé and Príncipe[3]	—	—
Guinea-Bissau	9.2	0.5			
Guyana	56.2	31.7	Senegal	33.8	4.8
Honduras	22.7	—	Tanzania	89.0	26.7
Madagascar	16.6	0.7	Uganda	120.1	120.1
Malawi	23.1	2.3	Zambia	468.8	117.2
Twenty-three members, of which 22 under the enhanced HIPC framework[4]				1,322.9	475.5

[1]Amounts may include interest on assistance committed but not disbursed during the interim period.
[2]These amounts are grants from the PGRF-HIPC Trust Account to a member's account, to be used for repayments to the IMF as they fall due.
[3]The IMF's share of assistance under the HIPC Initiative was zero.
[4]Côte d'Ivoire reached its decision point under the original HIPC Initiative.

expenses related to PRGF operations for the financial years 1998 through 2004. The equivalent amount is transferred from the PRGF Trust Reserve Account to the PRGF-HIPC Trust. In addition, part of the interest surcharge on financing provided in 1998 and 1999 under the Supplemental Reserve Facility related to activation of the New Arrangements to Borrow has also been transferred to the PRGF-HIPC Trust.

Interim PRGF loan resources. To ensure the continuity of PRGF operations after existing loan resources in the PRGF Trust are fully committed, additional loan resources of SDR 4.0–4.5 billion need to be mobilized for an interim period until PRGF operations become self-sustaining after 2005. As of April 30, 2001, a number of member countries had indicated their readiness to provide new loans for this purpose in the amount of SDR 3.2 billion. Consultations will be undertaken with current PRGF creditors on the possible use of the Reserve Account to provide security for the new loans.

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

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

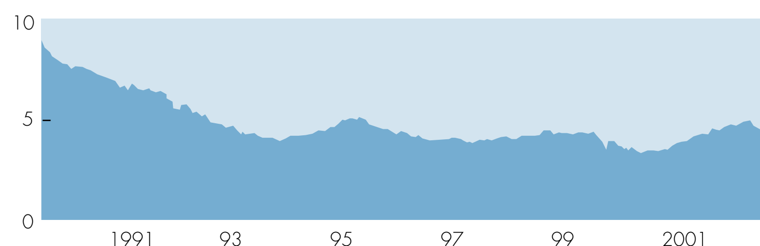
The performance benchmark for the portfolio of bonds and medium-term instruments is a customized index comprising 1- to 3-year government bond indices for Germany, Japan, the United Kingdom, and the United States, with each market weighted to reflect the currency composition of the SDR basket. Regular portfolio rebalancing ensures that the currency composition of the investment portfolio matches as closely as practicable the currency composition of the SDR basket. The new strategy is implemented on the IMF's behalf by the BIS, the World Bank, and three private investment managers.

In the first 12 months since its inception, the new investment strategy added about 220 basis points (on an annualized basis, net of fees) to returns over the previous approach of investing in SDR-denominated deposits—generating supplemental income of nearly SDR 140 million in support of PRGF and PRGF-HIPC operations.

Special Drawing Rights

The SDR is a reserve asset created by the IMF in 1969 and allocated to members in proportion to their IMF quotas to meet a long-term global need to supplement existing reserve assets. A member may use SDRs to obtain foreign exchange reserves from other members

Figure 6.2
SDR Interest Rates, 1991–2001
(In percent)



and to make payments to the IMF. Such use does not constitute a loan; members are allocated SDRs unconditionally and may use them to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. However, a member that makes net use of its allocated SDRs pays the SDR interest rate, while a member that acquires SDRs in excess of its allocation receives interest. A total of SDR 21.4 billion has been allocated to members, in two allocations, most recently in 1981. The SDR also serves as the unit of account for the IMF, and the SDR interest rate provides the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF.

- *Special one-time allocation.* In September 1997, the IMF Board of Governors proposed an amendment to the Articles of Agreement to allow a special one-time allocation of SDRs to correct for the fact that more than one-fifth of the IMF membership has never received an SDR allocation since they joined the IMF after the last allocation in 1981. The special allocation of SDRs would enable all members of the IMF to participate in the SDR system on an equitable basis and would double cumulative SDR allocations to SDR 42.87 billion. The proposal will become effective when three-fifths of the IMF membership (110 members) having 85 percent of the total voting power have accepted the proposal. As of April 30, 2001, 107 members having 71 percent of the total voting power had agreed.
- *SDR valuation.* The value of the SDR is based on the value of a basket of currencies. The currency basket is reviewed every five years to ensure that the currencies included in it are representative of those used in international transactions, and that the weights assigned to the currencies reflect their relative importance in the world's trading and financial system. The latest valuation review was completed in October 2000, and the IMF Executive Board decided on changes in the valuation basket, effective January 1, 2001, to take account of the introduction of the euro as the common currency for a number of IMF members, and to reflect the growing role of international financial markets (Box 6.7). The new valuation basket includes the U.S. dollar, euro, Japanese yen, and pound sterling, and its value is determined daily based on exchange rates quoted on major international currency markets (Tables 6.5 and 6.6).[8]
- *SDR interest rate.* The SDR interest rate is determined weekly based on a weighted average of representative interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. In keeping with the change in the valuation of the SDR, effective January 1, 2001, the representative rate for the euro area became the three-month Euribor (Euro Interbank Offered Rate). The representative interest rate for the Japanese yen was changed to the yield on Japanese government 13-week financing bills to reflect changes in Japanese financial markets and the resulting reduced liquidity of the three-month certificate of deposit. The yields on the three-month U.S. and U.K. Treasury bills continued to serve as the representative rates for the U.S. dollar and pound sterling, respectively. The SDR rate evolved during the year in line with developments in the major money markets, rising in the first half of the financial year and declining thereafter, averaging 4.48 percent over the course of FY2001 (see Figure 6.2).
- *SDR operations and transactions.* All SDR transactions are conducted through the SDR Department. SDRs are held largely by member countries with the balance held in the IMF's General Resources Account and by official entities prescribed by the IMF to hold SDRs. Prescribed holders do not receive SDR allocations but can acquire and use SDRs in operations and transactions with IMF members and with other prescribed holders under

[8]See the IMF website for data on the value of the SDR and the SDR interest rate.

Box 6.7

SDR Valuation and Interest Rate

Valuation. The value of the SDR is based on the weighted average of the values of a basket of major international currencies. The method of valuation is reviewed at five-yearly intervals. The latest review was completed on October 12, 2000, and the Executive Board decided on a number of changes to take account of the introduction of the euro as the common currency for a number of European countries and the growing role of international financial markets. The criterion for selecting the currencies of those member countries that are the largest exporters of goods and services was extended to include exports by a monetary union (netting trade among members of the union). A second selection criterion was introduced to ensure that the currencies included in the valuation basket are among the most widely used in international transactions and widely traded in the principal foreign exchange markets. On the basis of these two criteria, the currencies selected for inclusion in the SDR basket for the period 2001–2005 are the U.S. dollar, euro, Japanese yen, and pound sterling. The weights of each currency are shown in Table 6.5.

The amounts of each of the four currencies included in the new SDR valuation basket were calculated on December 29, 2000, in accordance with the new weights. The calculation was made on the basis of the average exchange rate for these currencies over the three months ending on that date in such a manner as to ensure that the value of the SDR on December 29, 2000, was the same under both the revised valuation and previous valuation baskets. The value and composition of the SDR on April 30, 2001, is shown in Table 6.6.

Interest rate. The IMF also reviewed the method for determining the SDR interest rate and decided to continue to set the weekly interest rate on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. However, the financial instruments used to determine the representative interest rate for the euro and the Japanese yen were modified to reflect financial market developments (see text).

Table 6.5

Currency Weights in SDR Basket

(In percent)

Currency	Effective January 1, 2001	Previous Weights
U.S. dollar	45	39
Euro[1]	29	
Deutsche mark		21
French franc		11
Japanese yen	15	18
Pound sterling	11	11

[1]On January 1, 1999, the deutsche mark and French franc in the SDR basket were replaced by equivalent amounts of euro.

Table 6.6

SDR Valuation

(As of April 30, 2001)

Currency	Amount of Currency Units	Exchange Rate[1]	U.S. Dollar Equivalent
Euro	0.4260	0.88710	0.377905
Japanese yen	21.0000	123.53000	0.169999
Pound sterling	0.0984	1.43180	0.140889
U.S. dollar	0.5770	1.00000	0.577000
			1.265793

Memorandum:
SDR 1 = US$1.265793
US$1 = SDR 0.790019

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

the same terms and conditions as IMF members.[9] Transactions in SDRs are facilitated by voluntary arrangements with 13 members and one financial institution under which the parties stand ready to buy or sell SDRs for currencies that are readily usable in international transactions, provided that their own SDR holdings remain within certain limits. These arrangements have helped ensure the liquidity of the SDR system.[10]

The total level of transfers of SDRs continued to decrease in FY2001—to SDR 18.7 billion, compared with SDR 22.9 billion the previous year and the peak of SDR 49.1 billion in FY1999 when the volume of SDR transactions increased significantly because of

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

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

Table 6.7
Transfers of SDRs

	Financial Years Ended April 30								
	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Transfers among participants and prescribed holders									
Transactions by agreement[1]	5,056	3,122	8,987	8,931	7,411	8,567	13,817	6,639	5,046
Prescribed operations[2]	5,610	406	124	1,951	88	86	4,577	293	544
IMF-related operations[3]	94	436	301	704	606	901	756	684	923
Net interest on SDRs	337	121	174	319	268	284	289	214	302
Total	**11,097**	**4,085**	**9,586**	**11,905**	**8,372**	**9,839**	**19,439**	**7,831**	**6,814**
Transfers from participants to General Resources Account									
Repurchases	583	642	1,181	5,572	4,364	2,918	4,761	3,826	3,199
Charges	1,798	1,425	1,386	1,985	1,616	1,877	2,806	2,600	2,417
Quota payments	12,643	71	24	70	—	—	8,644	528	64
Interest received on General Resources Account holdings	128	336	262	53	51	44	35	138	118
Assessments	3	4	4	4	4	4	3	3	2
Total	**15,155**	**2,478**	**2,857**	**7,683**	**6,035**	**4,844**	**16,249**	**7,094**	**5,800**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	5,769	2,676	5,970	6,460	4,060	4,243	9,522	3,592	3,166
Repayments of Fund borrowings	350	300	862	—	—	—	1,429	—	—
Interest on Fund borrowings	92	162	97	—	—	—	46	18	—
In exchange for other members' currencies—Acquisitions to pay charges	699	166	99	49	224	20	545	1,577	1,107
Remuneration	922	958	815	1,092	1,055	1,220	1,826	1,747	1,783
Other	73	108	51	259	27	90	74	1,008	31
Total	**7,905**	**4,370**	**7,894**	**7,859**	**5,366**	**5,574**	**13,442**	**7,942**	**6,087**
Total transfers	**34,157**	**10,933**	**20,336**	**27,448**	**19,773**	**20,256**	**49,130**	**22,867**	**18,702**
General Resources Account holdings at end of period	**7,930**	**6,038**	**1,001**	**825**	**1,494**	**764**	**3,572**	**2,724**	**2,437**

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

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

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

payments for the quota increase. Summary data on transfers of SDRs are presented in Table 6.7.

Pattern of SDR Holdings

By the end of FY2001, the IMF's own holdings of SDRs, which had risen sharply as a result of payments for quota subscriptions in 1999, had fallen to SDR 2.4 billion from SDR 2.7 billion a year earlier, toward the targeted range of SDR 1.0–1.5 billion in which the IMF seeks to maintain its SDR holdings. SDRs held by prescribed holders also decreased—by SDR 0.2 billion. Consequently, the SDR holdings by participants increased to SDR 18.6 billion from SDR 18.1 billion in FY2000.

The SDR holdings of the industrial and net creditor countries relative to their net cumulative allocation increased from a year earlier. This increase was mainly due to large interest (remuneration) payments made to those members. The SDR holdings of nonindustrial members declined to 54.6 percent of their net cumulative allocations from 62.5 percent a year earlier, mainly as a result of repayments and payments of interest charges on loans from the General Resources Account.

Income, Charges, Remuneration, and Burden Sharing

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

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

In November 2000, the IMF introduced level-based surcharges to discourage unduly large use of credit in the credit tranches, including Stand-By Arrangements and under the Extended Fund Facility (see Chapter 4 and Table 4.1). These surcharges apply to new credit extended after November 28, 2000, the date the decision was adopted by the Executive Board. As noted earlier, the IMF also imposes surcharges on shorter-term loans under the SRF and CCL, which vary according to the length of time credit is outstanding. Income derived from surcharges is placed in the IMF's reserves and is not taken into account in determining the income target for the year.

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

The IMF pays interest (remuneration) to creditors on their IMF claims (reserve positions) based on the SDR interest rate. The basic rate of remuneration is currently set at 100 percent of the SDR interest rate (the maximum permitted) but the IMF's charter allows it to be set as low as 80 percent of the SDR rate.

Since 1986, the rates of charge and remuneration have been subject to a burden-sharing mechanism that distributes the cost of overdue financial obligations evenly between creditor and debtor members. Loss of income from unpaid interest charges is recovered through upward adjustments to the rate of charge and downward adjustments to the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. Additional adjustments to the basic rates of charge and remuneration are made to generate precautionary balances in the form of contributions to a Special Contingent Account (SCA–1), which was established specifically to protect the IMF against the risk of loss resulting from overdue obligations. Resources in the SCA–1 are refundable after all arrears have been eliminated but can be refunded earlier by a decision by the IMF. In FY2001, the combined adjustment for unpaid interest charges and the allocation to the SCA–1 resulted in an increase to the basic rate of charge of 17 basis points, and a reduction in the rate of remuneration of 18 basis points. The adjusted rates of charge and remuneration averaged 5.33 percent and 4.28 percent, respectively, for the financial year.

In April 2000, the basic rate of charge for FY2001 was set at 115.9 percent of the SDR interest rate to achieve the agreed income target. The IMF's net income, net of refunds of interest charges (see below), in FY2001 totaled SDR 176 million. This included SDR 119 million derived from net pension assets. SRF income, net of the annual expenses of administering the PRGF Trust, amounted to SDR 9 million. As initially agreed in FY1998, the IMF was not reimbursed for the expenses of administering the PRGF Trust in FY2001; instead, an equivalent amount (SDR 55 million) was transferred from the PRGF Trust through the Special Disbursement Account to the PRGF-HIPC Trust. As agreed at the beginning of the financial year, SDR 42 million of net income in excess of the income target was returned to members that paid interest charges at the end of FY2001, retroactively reducing the FY2001 rate of charge to 113.7 percent of the SDR interest rate. In addition, SDR 94 million generated through the adjustments to the rate of charge and the rate of remuneration described above was placed in the SCA–1.

Following the retroactive reduction in the rate of charge, SDR 176 million was placed to the IMF's

reserves, of which SDR 9 million of SRF net income was to the General Reserve and the remainder to the Special Reserve. Total reserves rose to SDR 3.3 billion as of April 30, 2001, from SDR 3.1 billion a year earlier.

In April 2001, the Executive Board decided to continue the financial mechanism in place, and set the basic rate of charge for FY2002 at 117.6 percent of the SDR interest rate. The Board also decided that for FY2002, after meeting the expenses of administering the PRGF Trust, any remaining net operational income generated by surcharges on purchases in the credit tranches and under the EFF, SRF, and CCL would be placed to the General Reserve at the end of the financial year.

Safeguarding IMF Resources and Dealing with Arrears

In FY2001, the IMF's efforts to safeguard its resources intensified with the implementation of safeguards assessments for countries making use of IMF resources. These assessments focus on the adequacy of the central bank's internal control, accounting, reporting, and auditing systems. In addition, the IMF introduced strengthened remedial actions to deal with misreporting of information provided to the IMF and misuse of IMF resources. Continued progress was also made under the strengthened arrears strategy to reduce overdue obligations to the IMF.

Safeguards Assessments

In March 2000, the IMF Executive Board adopted a strengthened framework of measures to safeguard the financing provided to member countries. These measures include the conduct of safeguards assessments of member country central banks, which began in July 2000 (see Box 6.8). The strengthened framework, adopted against the background of several instances of misreporting of information to the IMF and allegations of misuse of IMF resources, aims at supplementing conditionality, technical assistance, and other means that have traditionally ensured the proper use of IMF loans. In particular, safeguards assessments aim to provide reasonable assurance to the IMF that a central bank's framework of reporting and controls is adequate to manage resources, including IMF disbursements. Safeguards assessments are conducted for central banks because they are typically the recipients of IMF disbursements.

Safeguards assessments consider the adequacy of five key areas of control and governance within a central bank, summarized under the acronym *ELRIC*, as follows: *E*xternal audit mechanism, *L*egal structure and independence of the central bank, financial *R*eporting practices, *I*nternal audit mechanism, and the system of internal *C*ontrols. The *ELRIC* framework is derived from the IMF's Code of Good Practices on Transparency in Monetary and Financial Polices and employs International Accounting Standards (IAS), International Standards on Auditing (ISA), and the IMF's data dissemination standards (Special Data Dissemination Standard and General Data Dissemination System) as benchmarks.

Safeguards assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000. Member countries with arrangements in effect prior to June 30, 2000, are subject to transitional procedures. These countries are required to

Box 6.8

Early Experience with IMF Safeguards Assessments

The implementation of the safeguards policy beginning in July 2000 has resulted in a heightened awareness regarding transparency and governance issues in central bank operations; it is hoped that this will lead to improved overall effectiveness of the safeguards employed by central banks. For example, at least nine central banks that did not previously have private independent external auditors have recently appointed, or are in the process of appointing them for the first time. They are those of Albania, Cambodia, Croatia, the former Yugoslav Republic of Macedonia, Peru, Romania, Turkey, the Federal Republic of Yugoslavia, and the Banque des Etats de l'Afrique Centrale (BEAC). Several of these appointments can be directly attributed to the advent of safeguards assessments and a number of central banks have sought IMF staff's advice in this matter.

The early experience with safeguards assessments suggests that they provide a useful tool for preventing the potential misreporting of data to the IMF and for raising awareness among central bank officials of the need for vigilance over controls to safeguard central bank resources, especially foreign reserves, from misuse. Although the sample of completed cases is too small to confirm a trend, recurring findings of safeguards assessments include the absence of reconciliation between audited financial statements and economic data used in the monitoring of IMF-supported programs; weak oversight by central bank boards over control, audit, and financial reporting processes; and, more generally, inadequate financial reporting. In general, central bank officials have been receptive to the findings of safeguards assessments and have adopted the staff's recommendations. In some cases, central banks have undertaken a deeper analysis of their safeguards already in place in response to the IMF initiative.

demonstrate the adequacy of only one key element of the safeguards framework, namely, that their central banks publish annual financial statements that are independently audited by external auditors in accordance with internationally accepted standards.

The implementation of safeguards assessments is undertaken in two stages. Stage One is a preliminary assessment by IMF staff at headquarters of the adequacy of a central bank's *ELRIC*, based on a review of documentation provided by the authorities and, if necessary, discussions with the central bank's external auditors. A confidential Stage One report that documents vulnerabilities identified in a central bank's *ELRIC*, together with staff's proposed remedial measures, is prepared for IMF management. If necessary, a Stage Two, on-site, assessment is undertaken to confirm or modify the preliminary conclusions drawn by the Stage One assessment and to agree on appropriate remedial measures with the central bank authorities. Multidisciplinary teams led by IMF staff and including external experts conduct Stage Two assessments. The final confidential report is discussed with central bank officials and includes their formal response. The conclusions and agreed-upon remedial measures are reported to the IMF Executive Board.

In FY2001, 17 safeguards assessments were completed, including those under the transitional procedures. Toward the end of 2001, the Executive Board will review the framework governing the assessments and the collective experience from the new policy. The review will be aided by the same panel of eminent external experts that had endorsed the introduction of the new policy. The panel will provide the Executive Board with an independent evaluation of the implementation of the safeguards policy and its effectiveness.

Following the March 2000 review of the IMF's overall framework governing misreporting, the Board addressed specific issues related to the Misreporting Guidelines in July 2000. In its July meeting, the Board strengthened the coverage of the Guidelines in several respects. The limitation period allowed for under the Guidelines was lengthened from two years to four and the Guidelines were extended to cover outright purchases in the General Resources Account, including emergency assistance and the CFF. Policies were also adopted to bring prior actions under the Guidelines and to make waivers conditional on the accuracy of the information provided. In addition, the Board reconsidered and reaffirmed the policy of making information public in each case of misreporting. In December 2000, the Board considered in an informal seminar the issues posed by bringing into the misreporting framework information that is provided to the IMF in the context of the HIPC Initiative.

Progress Under the Strengthened Cooperative Strategy

The strengthened cooperative strategy on overdue financial obligations to the IMF, initiated in May 1990 in response to mounting concerns about rising arrears during the 1980s, consists of three essential elements: prevention, intensified collaboration, and remedial measures.

- *Prevention* remains the first line of defense against the emergence of new cases of arrears. Preventive measures include IMF surveillance of members' economic policies, policy conditionality attached to the use of IMF resources, technical assistance by the IMF in support of members' adjustment and reform efforts, the assurance of adequate balance of payments financing for members under IMF-supported programs, and other measures to safeguard the IMF's resources.
- *The intensified collaborative element* of the arrears strategy provides a framework for cooperating members in arrears to establish a strong track record of policy performance and payments to the IMF and, in turn, to mobilize bilateral and multilateral financial support for their adjustment efforts and to clear arrears to the IMF and other creditors. Pursuit of the intensified collaborative approach has resulted in the normalization of relations between the IMF and most of the members in protracted arrears at the time of establishment of the strengthened cooperative strategy in 1990.

  In addition, a "rights" approach, also established in 1990, allows eligible members (limited to the 11 members in protracted arrears to the IMF at the end of 1989) to build a track record of policy performance and payments under IMF-monitored programs. Under a rights accumulation program, the member accumulates "rights" to future disbursements under a subsequent IMF arrangement, following the clearance of arrears to the IMF. The Executive Board extended the availability of the rights approach until end-June 2001.[11]
- An escalating timetable of *remedial measures* is applied to member countries with overdue obligations that do not actively cooperate with the IMF in seeking a solution to their arrears problems. This timetable guides Executive Board consideration of remedial measures of increasing intensity, although the application of each particular step is considered in light of the individual circumstances of the member concerned. In the cases of Afghanistan, the

[11]Of the eight countries eligible for a rights accumulation program that had cleared their arrears to the IMF by the mid-1990s, three availed themselves of the rights approach. The three remaining eligible countries are Liberia, Somalia, and Sudan.

Table 6.8
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 2001
(In millions of SDRs)

		By Type			By Duration			
	Total	General Department (incl. SAF)	SDR Department	Trust Fund	Less than one year	1–2 years	2–3 years	3 years or more
Afghanistan, Islamic State of	6.3	—	6.3	—	1.5	1.1	1.2	2.5
Congo, Democratic Republic of the	392.2	376.1	16.1	—	13.7	19.2	27.8	331.5
Iraq	46.0	—	46.0	—	5.0	3.8	4.2	33.0
Liberia	484.8	433.6	21.1	30.1	12.8	9.7	10.6	451.7
Somalia	209.6	193.1	8.7	7.8	6.2	4.7	5.2	193.5
Sudan	1,103.1	1,025.1	—	78.0	23.7	19.5	22.9	1,037.0
Total	**2,242.0**	**2,027.9**	**98.2**	**115.9**	**62.9**	**58.0**	**71.9**	**2,049.2**

Democratic Republic of the Congo, Iraq, and Somalia—where civil conflicts, the absence of a functioning government, or international sanctions have prevented the IMF from reaching a judgment regarding the member's cooperation—the application of remedial measures has been delayed or suspended until such a judgment can be reached.

The Executive Board conducted several reviews of member countries' overdue financial obligations to the IMF during FY2001. The Board reviewed Liberia's overdue obligations on November 15, 2000, and noted a regrettable weakening of policy implementation. The Board decided to defer the application of further remedial measures for six months. Absent a strengthening of policy performance, consideration would be given to the initiation of the procedure for the suspension of Liberia's voting rights in the IMF. The Executive Board reviewed Sudan's overdue obligations twice (on July 31, 2000 and on March 5, 2001), and noted that Sudan's payments to the IMF were in line with commitments, and that policy performance was broadly on track under the staff-monitored programs for 1999–2001. Under its policy of de-escalation of remedial measures, the Board terminated its suspension of Sudan's voting rights in the IMF, with effect from August 1, 2000, following the earlier lifting of the declaration of noncooperation regarding Sudan in August 1999 (see the *Annual Report 2000,* page 74). The Board held no reviews of the overdue obligations of the Democratic Republic of the Congo, Somalia, and the other protracted arrears cases.

At the end of April 2001, the Democratic Republic of the Congo, Liberia, Somalia, Sudan, Iraq, and the Islamic State of Afghanistan remained ineligible under Article XXVI, Section 2(a), to use the general resources of the IMF. Declarations of noncooperation—a further step under the strengthened cooperative arrears strategy—were in effect for the Democratic Republic of the Congo (issued on February 14, 1992) and Liberia (issued on March 30, 1990). In addition, the voting rights of the Democratic Republic of the Congo remained suspended (effective June 2, 1994).

Protracted arrears to the IMF (defined as obligations overdue six months or more) declined in FY2001 to SDR 2.24 billion as of April 30, 2001, from SDR 2.32 billion a year earlier. These arrears continued to be concentrated among four member countries—the Democratic Republic of the Congo, Liberia, Somalia, and Sudan—whose arrears accounted for almost all overdue obligations to the IMF as of April 30, 2001 (Table 6.8).

The Federal Republic of Yugoslavia (Serbia/Montenegro) cleared its arrears of SDR 101.1 million on December 20, 2000, prior to succeeding to the membership in the IMF of the former Socialist Federal Republic of Yugoslavia.

CHAPTER 7

Technical Assistance and Training

In addition to its policy advice and financing, the IMF provides technical assistance and training to its member countries in its areas of expertise—including central banking, fiscal policy management, exchange rate systems, economic and financial statistics, and related legal fields. Much of the IMF's technical assistance supports members' efforts to strengthen their capacity—both human and institutional resources—to formulate and implement sound policies. Technical assistance also helps countries design appropriate macroeconomic and structural reforms, taking into account lessons learned by other countries in addressing similar economic policy concerns.

A description of the objectives, scope, priorities, and operational methods of this aspect of the IMF's work is provided in the *Policy Statement on IMF Technical Assistance (2001)*.

During FY2001, the IMF's technical assistance program attracted heightened attention from management and the Executive Board. At the fall 2000 Annual Meetings in Prague, the International Monetary and Financial Committee (IMFC) endorsed the Managing Director's view that technical assistance should play a central role in supporting the work of the IMF in crisis prevention and management, in capacity building for low-income and transition countries, and in restoring macroeconomic stability in countries in the wake of crises. The IMF then launched a reexamination of the way in which it manages and sets priorities for technical assistance. The result was a policy paper for the Board that suggested realigning technical assistance more closely and transparently to these policy priorities.

This reexamination of the IMF's approach to planning and managing its technical assistance took place at a time when many surveillance-related initiatives were being launched, all of which began to generate additional demands for technical assistance. The Financial Systems Assessment Program (FSAP) and the preparation of Reports on the Observance of Standards and Codes (ROSCs) carried out during 2000–01 identified a wide range of weaknesses in members' adherence to internationally recognized norms and practices that, to be rectified, would require significantly higher levels of technical assistance than in the past. Similarly, work on improving the management of offshore financial centers, macroprudential indicators, and policies to improve the access of developing and emerging market economies to capital and commercial markets further increased the demands on IMF technical assistance resources.

Aligning Technical Assistance with Policy Priorities

At its January 2001 meeting, the Executive Board recognized that technical assistance would become increasingly crucial as a means of furthering the IMF's efforts in all the above areas. At the same time, the Board acknowledged that the IMF's own capacity—both its staff and financial resources—was insufficient to provide all the technical assistance needed. Directors thus welcomed the staff's new proposals for managing and setting priorities for technical assistance beginning in FY2002 (see Box 7.1), which should introduce more transparency and accountability into how technical assistance resources are planned, allocated, and reviewed. Directors also welcomed the staff's first Annual Report on Technical Assistance, which reviewed the IMF's technical assistance operations in FY2000 and provided background for considering the new proposals for priorities—and which confirmed the membership's appreciation of the value of IMF technical assistance.

Given the expectation that technical assistance would play a progressively more central and proactive role in the IMF's work, the Board felt that a potentially significant gap might emerge between the supply of and demand for it. The demand for assistance arising from program activities was expected to continue to grow—particularly in low-income countries where capacity was weakest—with additional demands from the initiatives on standards and codes, the Financial Sector Assessment Program, tracking of debt relief provided to heavily indebted poor countries (HIPCs), and safeguarding IMF resources. Dealing with this

Box 7.1

Criteria for Prioritizing Technical Assistance Requests

Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in prioritizing country requests. These considerations were revised in January 2001, and the new guidelines, in the form of "filters," are as follows:

Filter 1: Core specialization of the IMF. The assistance provided must fall within the substantive areas of technical assistance recognized as being within the IMF's core areas of specialization listed in Table 7.1 on the next page. The IMF provides technical assistance that supports policy reform and builds institutional capacity.

Filter 2: Main program areas. Technical assistance must be clearly directed toward supporting one of five main program areas. These are:

- preventing or containing crises and their contagion effects in countries without IMF-supported programs; principally, systemically important nonindustrial countries and emerging market economies;
- implementing sustainable debt relief and poverty reduction programs for low-income countries; encompassing the full range of technical assistance in support of both poverty reduction initiatives and policies to restore macroeconomic stability;
- fostering and maintaining macroeconomic and financial sector stability in countries not currently using IMF resources, largely middle-income and transition economies;
- promoting regional capacity-building initiatives, including training and, in some cases, regional integration efforts; and
- rehabilitating basic economic and financial institutions in countries in postconflict situations.

Filter 3: Key policy initiatives. Assistance should be focused on supporting the IMF's key policy priorities and initiatives. While these will vary over time, they are currently as follows:

- **Standards and codes**: follow-up assistance to help countries bring their fiscal, financial, and statistical practices (including legal instruments) in compliance with the standards and codes that are under the auspices of the IMF. This would include technical assistance to help countries undertake assessments of their compliance with such standards;
- **Financial Sector Assessment Program (FSAP)**: follow-up assistance to help countries address weaknesses identified under the FSAP;
- **Heavily Indebted Poor Country (HIPC) programs**: technical assistance for strengthened public expenditure management systems to track the use of debt relief for poverty reduction outlays, as well as basic economic and financial statistics improvement, under the Heavily Indebted Poor Countries (HIPC) Initiative;
- **Safeguarding IMF resources**: assistance in support of strengthened public expenditure management or central bank accounting and reserve management practices (and associated legal instruments) as well as addressing data misreporting issues;
- **Offshore financial centers**: assessments and introduction of best practices; and
- **Policy reforms/institutional capacity building in support of achieving macroeconomic viability:** for example, revenue mobilization efforts, strengthening sound monetary policy, developing macroprudential and other statistical indicators.

Filter 4: Impact and commitment. A country's past track record, and its degree of ownership and commitment, should receive a large weight in appraising a request for technical assistance. These factors could be offset by other considerations only in a limited set of cases, such as dealing with systemically important countries or crisis situations. At times, a change in government may result in stronger ownership and better prospects for successful assistance, even where a poor track record exists.

Filter 5: Regional diversity. The principle of uniformity of treatment of members requires that some diversity in technical assistance resource allocation be maintained, and that small countries' needs, where technical assistance can often have high impact and where other sources of assistance may be unavailable, are not ignored.

Filter 6: Availability of external financing. Although the availability of external financing should normally not be a decisive factor, cooperation with other donors providing funding for IMF technical assistance and/or to support other elements of assistance that the IMF cannot easily provide (for example, equipment, in-country training, systems development, local expertise) should be positively taken into account when appraising requests for technical assistance.

Filter 7: Nature of the request. Requests for a policy or diagnostic mission, or short-term expert, are less costly than requests for a resident expert. Some of these requests can be met without significantly impinging on the IMF's overall technical assistance program resources, irrespective of their priority, unless they are likely to have implications for longer-term follow-up assistance.

Filter 8: Regional approach. Given the high cost of providing assistance to small member countries, and in the light of common problems even among some of the larger countries, the IMF will actively seek opportunities for using regionally based approaches to providing technical assistance. In some situations, regional technical assistance centers may be an efficient solution—for example, the Pacific Financial Technical Assistance Center—and will be pursued.

Filter 9: Presence of other technical assistance providers. In deciding whether to provide assistance, the IMF will consider whether other providers are actively engaged in similar efforts. Duplication should be avoided, and where requests are made in such situations, all efforts at coordination will be made.

The above guidelines are reflected in the full *Policy Statement on IMF Technical Assistance*, posted on the IMF website.

Table 7.1
Core Areas of IMF Technical Assistance Activity, Classified by IMF Department

	High Priority[1]	Secondary Priority[1] (resources permitting)
Monetary and Exchange Affairs	• Design of structural reforms for the **effective conduct of monetary and exchange policy** formulation and implementation, including improving monetary and exchange operations, foreign reserves management, systemic liquidity arrangements, and related issues in public debt management • Promoting **sound and efficient banking and financial systems** as necessary for financial and economic stability, including through strengthening bank supervision policies and regulation, bank restructuring/resolution, cross-border supervision issues, and payments system issues • Contributing to **capacity building within central banks and financial supervisory agencies** for effective ongoing implementation of monetary, exchange, and financial sector policies, including legal framework and institutional improvements, and priority aspects of central bank accounting and auditing systems	• Banking system-related issues in corporate restructuring and bankruptcy • Capital market development and oversight • Nonbank financial sector supervision; coordination and consolidation of supervisory bodies • Development of credit bureaus • Workshops/seminars on central banking and financial sector supervision issues
Fiscal Affairs	• Creation and enhancement of institutional capacity in **macro-fiscal policy management** • Design of structural policy reforms, and related institutional reforms, for **sustainable revenue mobilization,** including interjurisdictional issues of macroeconomic significance (e.g., fiscal federalism, tariff reform) • **Budget preparation and public expenditure management**, including reform of treasury and government accounting and reporting systems • **Short-term expenditure rationalization**, incorporation of social safety nets in IMF program design, and analyses of macro-fiscal sustainability of social security systems	• Advice on how to use information technology in tax/customs administration and public expenditure management • Design of central government transfer systems to lower levels of government • Design of social safety nets and social security systems, but only when relevant to macroeconomic adjustment and in the absence of timely World Bank involvement • Conduct of courses, seminars, and workshops on various fiscal issues • Tax aspects of financial abuse
Statistics	• Monetary and financial statistics • Balance of payments and international trade statistics, including international investment positions • Reserves and foreign currency liquidity/external debt statistics • Government finance statistics • National accounts and price statistics • Statistical organization	• Employment statistics (refer to International Labor Organization) • Social and demographic data (refer to World Bank) • Development and implementation of census and household or industry surveys • Computerization; database and information technology development • Training courses/seminars for individual countries • Development of source statistics
IMF Institute	Training events focusing on: • Macroeconomic management and financial programming • Financial sector issues • Fiscal issues • External sector issues	Training events focusing on: • Poverty reduction strategies • Structural reform • Governance • Economic issues for nongovernmental organization representatives

[1]Classification does not represent a value judgment by the IMF of the intrinsic importance of these areas. Its purpose is to distinguish between areas in which the IMF considers it has the primary responsibility, mandate, and competence to act, and areas in which other agencies may be better placed and have the resources.

potential imbalance would remain a key challenge, requiring carefully considered action on several fronts. First, setting priorities for technical assistance activities would be crucial. But even with greater prioritization and more efficient technical assistance operations, many Directors felt that a sizable gap might still remain that would require mobilizing additional technical assistance resources from both internal and outside sources—which in turn would require the cooperation of member countries and the international community as a whole. Any potential additional resource implications for the IMF arising from excess demand for technical assistance would have to be taken up in the context of the next round of deliberations on the IMF's budget. While agreeing that it would be undesirable to earmark resources specifically for technical assistance, some Directors called for more precise information in the budget on plans for allocating technical assistance resources across departments.

Effective prioritization will remain crucial if the IMF is to discharge its technical assistance responsibilities in the coming years. Directors thus welcomed the progress already achieved in elaborating principles on prioritization through the use of "filters" outlined in the Policy Statement on IMF Technical Assistance (approved by the Board in March 2000), but agreed that more should be done. Directors therefore endorsed the proposal that management set priorities in accordance with a revised set of filters (see Box 7.1). Prioritizing technical assistance in accordance with the IMF's core areas of specialization, its main program areas, and its key policy initiatives should enable departments to align more systematically resource commitments with institutional priorities. A number of Directors cautioned, however, that the introduction of the new criteria should not unduly dilute previously agreed-upon filters. Directors stressed the importance of countries' past track records and commitment to making good use of technical assistance resources, while recognizing that these criteria should be assessed taking into account country-specific circumstances.

The Board endorsed the view that the new approach to setting priorities should not compromise the principle that all members are eligible to request technical assistance, and that all requests should be seriously considered. The new system, while rules-based, should be applied flexibly, in particular to enable the IMF to respond to emerging and unforeseen needs. The Board welcomed the provision of technical assistance to support key policy initiatives and concerns, while reiterating that technical assistance to support the effective implementation of IMF-supported programs remained important, as did technical assistance for countries without IMF-supported programs.

Given the growing demand for technical assistance, Directors reiterated the importance of better coordination among providers; they thus agreed to intensify coordination and collaboration with other providers, especially the World Bank. As a step in this direction, the role and tasks of the Technical Assistance Secretariat (in the Office of the Managing Director) were strengthened so that it now reports directly to the Deputy Managing Director responsible for technical assistance and has been renamed the Office of Technical Assistance Management.

Directors expressed appreciation to member countries that had helped finance IMF technical assistance by opening Technical Assistance Subaccounts with the IMF; they especially recognized the exemplary generosity of Japan, which financed a third of total IMF technical assistance field delivery. The Board welcomed the announcement that the Japanese government expected to increase its financial support sharply in FY2002, and urged other countries to follow suit—particularly to cover the capacity-building needs of the low-income countries eligible for the Poverty Reduction and Growth Facility and for the HIPC Initiative, and for improving adherence to standards and codes.

The Board reiterated the overriding importance of full ownership by recipients as a way to ensure their commitment to achieving agreed-upon technical assistance objectives. They therefore welcomed the information in the Annual Report on Technical Assistance on the progress being made in strengthening operational procedures—especially those aimed at ensuring greater involvement of the recipient country authorities in the design, monitoring, and implementation of technical assistance.

Effective technical assistance delivery systems and strong systems for monitoring, follow-up, and evaluation of activities were also important, and the Board urged further efforts in these directions.

Directors considered the potential benefits of disseminating technical assistance reports more widely. They agreed to develop a policy to promote dissemination of information on the IMF's technical assistance operations, which would be shared with other technical assistance providers on a reciprocal basis, with countries cofinancing technical assistance, and with the Board.

Strengthening Technical Assistance

New guidelines on the planning and monitoring of technical assistance were issued during FY2001 to ensure that management's priorities for allocating and delivering technical assistance are adhered to rigorously and systematically. Directors had earlier requested staff to assess the approaches to monitoring and evaluation followed by other bilateral and multilateral organizations and take into account the assessment in the development of a strengthened program for the IMF. Following completion of that assessment, the departments that provide technical assistance developed

proposals and initiated procedural changes. Evaluation procedures have been differentiated according to the way in which technical assistance is delivered—advisory mission, expert assignment, or training.

While the approaches of departments are similar, there are some differences among them in the formats used. These differences reflect the specific characteristics of the technical assistance and the manner in which technical assistance is integrated with other aspects of departmental operations. Departments have instituted databases documenting technical assistance capacity and policy work. In addition, departments have introduced a number of changes to enhance the monitoring of technical assistance. For example, the terms of reference and briefs for mission and experts now specify aims, outputs, and activities, as well as verifiable indicators of performance, in more detail and explicitly address risks that might prevent objectives from being achieved. Where appropriate, final reports include a work plan for the authorities to act upon following the conclusion of a technical assistance intervention. Such an approach allows enhanced feedback to departments, which in turn improves the advice provided to countries.

Guidelines also cover the measures that departments need to take to improve their cooperation and coordination with other providers of technical assistance providers, and to promote greater ownership and involvement of the recipient authorities in all aspects of technical assistance planning, implementation, and oversight. The guidelines underscore the role of area department mission chiefs and IMF Resident Representatives (see Box 8.1) in more proactively identifying economic and financial management weaknesses at the country level and in discussing these with national authorities and with other technical assistance providers.

As part of the reform of its technical assistance operations, the IMF is improving the dissemination of information on technical assistance activities more widely and openly. Besides publishing and periodically updating its Policy Statement on IMF Technical Assistance, the IMF, as noted earlier, has begun producing comprehensive Annual Reports on Technical Assistance activities.

Table 7.2
Technical Assistance Delivery
(In person-years)[1]

	1997/98	1998/99	1999/2000	2000/01
IMF technical assistance resources	**189.6**	**201.7**	**199.7**	**265.5**
Staff	103.9	98.9	97.6	171.8
Headquarters-based consultants	20.8	21.2	21.2	22.7
Experts	64.9	81.6	81.0	71.0
External technical assistance resources	**96.2**	**100.0**	**89.3**	**77.7**
United Nations Development Program	24.4	14.4	8.9	8.4
Japan	55.6	70.9	70.9	59.5
Other	16.2	15.0	9.6	9.8
Total technical assistance resources	**285.7**	**301.7**	**288.9**	**343.2**
Total resources by department				
Monetary and Exchange Affairs Department	110.6	120.8	106.8	101.2
Fiscal Affairs Department	98.8	101.7	98.5	111.9
Statistics Department	39.0	38.9	40.6	48.2
IMF Institute	12.1	15.4	24.1	54.4
Legal Department	10.3	10.7	8.0	15.4
Other[2]	14.9	14.3	10.9	12.2
Total regional use by department	**258.7**	**274.0**	**261.8**	**275.8**
African Department	65.8	72.1	72.0	68.2
Asia and Pacific Department	42.5	57.6	48.1	57.0
European I Department	23.8	22.4	27.0	30.2
European II Department	52.6	47.1	47.5	40.8
Middle Eastern Department	29.5	32.5	28.2	27.8
Western Hemisphere Department	35.2	32.1	28.2	23.7
Interregional	8.6	10.2	10.6	28.0
Nonregional use	**26.9**	**27.7**	**27.1**	**67.5**
Total technical assistance use	**285.6**	**301.7**	**288.9**	**343.2**

[1] An effective person-year of technical assistance is 260 days.
[2] "Other" includes the Policy Development and Review Department, Bureau of Information Technology Services, and the Office of Technical Assistance Management.

Technical Assistance Delivery in FY2001

The IMF provided about the same level of technical assistance to its members in FY2001 as in the previous year; such assistance accounted for about 343 person-years of advisory, capacity building, and support services by IMF staff in headquarters and the field, and externally recruited experts and consultants working in the field (see Table 7.2 and Figure 7.1). About three-quarters of IMF technical assistance goes to low and lower-middle-income countries (see Figure 7.2).

Apart from its own budgeted resources for technical assistance and training, the IMF administers financing provided by several bilateral and multilateral donors—including Australia, Canada, Denmark, France, Japan, the Netherlands, Switzerland, New Zealand, and the United Kingdom, as well as the Asian Development Bank, the United Nations, the United Nations Development Program (UNDP), the European Union,

and the World Bank. It administers the financing either through the Framework Administered Account for Technical Assistance (set up by the IMF in 1995), or through cost sharing under UNDP projects carried out by the IMF or other arrangements with the IMF. In FY2001, outside sources of financing accounted for about 23 percent of the IMF's total technical assistance and training activities, with Japan continuing to be the largest source of such external financing. Two new technical assistance subaccounts with the IMF were set up during FY2001—by the Netherlands in July 2000 and arrangements were well advanced for establishing another such subaccount with the United Kingdom's Department for International Development. The Office of Technical Assistance Management coordinates management of this financing.

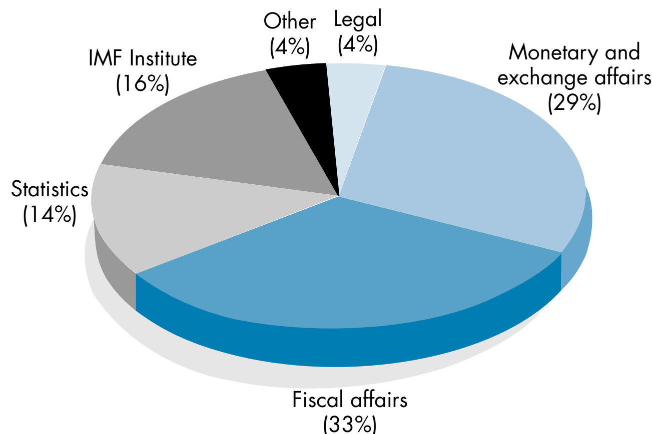
The **IMF Institute** continued to expand its training in different parts of the world in FY2001, building on earlier collaborative arrangements with partners. A new *Joint China-IMF Training Program* with the People's Bank of China was established during the year, to deliver training to government officials in China. In addition, the IMF and the government of Brazil agreed to establish a regional training center in Brasilia, which was inaugurated in May 2001. The Institute also increased the number of distance learning courses on financial programming and policies being delivered. In each of these courses, 50 participants receive eight weeks of training in their home countries, and, if successful, attend a two-week residential workshop in Washington. Finally, several courses in financial sector issues, introduced last year, have become part of the regular curriculum at headquarters and overseas.

As indicated above, in FY2001, a number of IMF initiatives relating to strengthening the architecture of the international monetary system created demand for technical assistance. Work on standards and codes, including fiscal transparency assessments, led to requests for technical assistance to help carry out recommendations. The Financial Sector Assessment Program, under which financial vulnerabilities are reviewed and measures recommended to strengthen financial systems, identified needs that in turn prompted requests for help in such areas as secondary market development and risk assessment methods. Similarly, work on the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS) led to requests for technical assistance and training in macroeconomic statistics.

Technical assistance to support rehabilitation and recovery in countries emerging from conflict continued in a number of regions; in particular, the IMF provided assistance to East Timor in close cooperation with the United Nations and Japan, which are cofinancing most of the technical assistance. Technical assistance "diagnostic" missions visited Angola, Burundi, the Republic of the Congo, and Ethiopia; a technical assistance program to help rehabilitate Eritrea's economic and financial management institutional capacity was started; and the IMF continued to cooperate with other donors in organizing fiscal, monetary, and statistical technical assistance to the Balkan region.

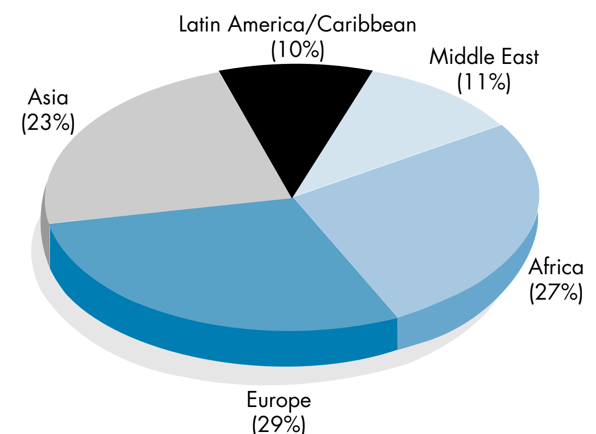
In response to the Executive Board's concern that IMF technical assistance be more closely aligned to its surveillance and programs and, where appropriate, be planned and financed in cooperation with other technical assistance providers on a country and

Figure 7.1
Technical Assistance by Function, FY2001
(As a percent of total resources, in effective person-years)[1]



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

Figure 7.2
Technical Assistance by Region, FY2001
(As a percent of total resources, in effective person-years)



regional basis, the staff initiated broad-based, comprehensive technical cooperation action plans for Cambodia and the Caribbean region in 2001. Implementation of similar programs continued for Nigeria, Yemen, and the Pacific region. The preparation of a technical cooperation action plan for the West Bank/Gaza was well advanced before it had to be abandoned because of security considerations. On an experimental basis, reviews of past technical assistance received and future technical assistance requirements were undertaken in conjunction with about 20 country (Article IV) consultations during 2001. Preliminary results showed that the country authorities and the IMF team considered the reviews useful but suggested that they be done on a more selective basis in the future.

CHAPTER 8

Organization, Staffing, and Budget

Financial year 2001 was one of expansion for selected IMF initiatives but was resource-constrained for most areas of the work program. With respect to staffing, the Executive Board approved the reclassification of 217 positions, converting some contractual positions to staff jobs, and streamlined and consolidated outsourcing arrangements. A revised employment framework was implemented to clarify and tighten criteria for employment, while allowing more flexibility in meeting staffing needs. Also, several initiatives were adopted to reduce stress on IMF staff, and guidelines on ethical standards for staff and the Executive Board were posted on the IMF's website (see Box 8.1). As to the administrative budget, the Executive Board agreed on a framework for FY2002 based on zero growth in staffing, with some small increases in selected activities related chiefly to the IMF's work on preventing financial crises. Financial year 2001 was also a year in which the IMF, in a move to further enhance the transparency and accountability of its activities, took steps to establish an Independent Evaluation Office to provide objective reviews and assessments of its operational work.

Shortly after the end of the financial year, on May 8, 2001, First Deputy Managing Director Stanley Fischer announced his intention to leave his position later in 2001. On June 7, Managing Director Horst Köhler announced that Anne Krueger would be Mr. Fischer's successor. At the same time, he announced his intention to appoint new Directors of the Research Department and the Policy Development and Review Department in light of the departures of the current incumbents. He also announced the Director of the new International Capital Markets Department.

Organization

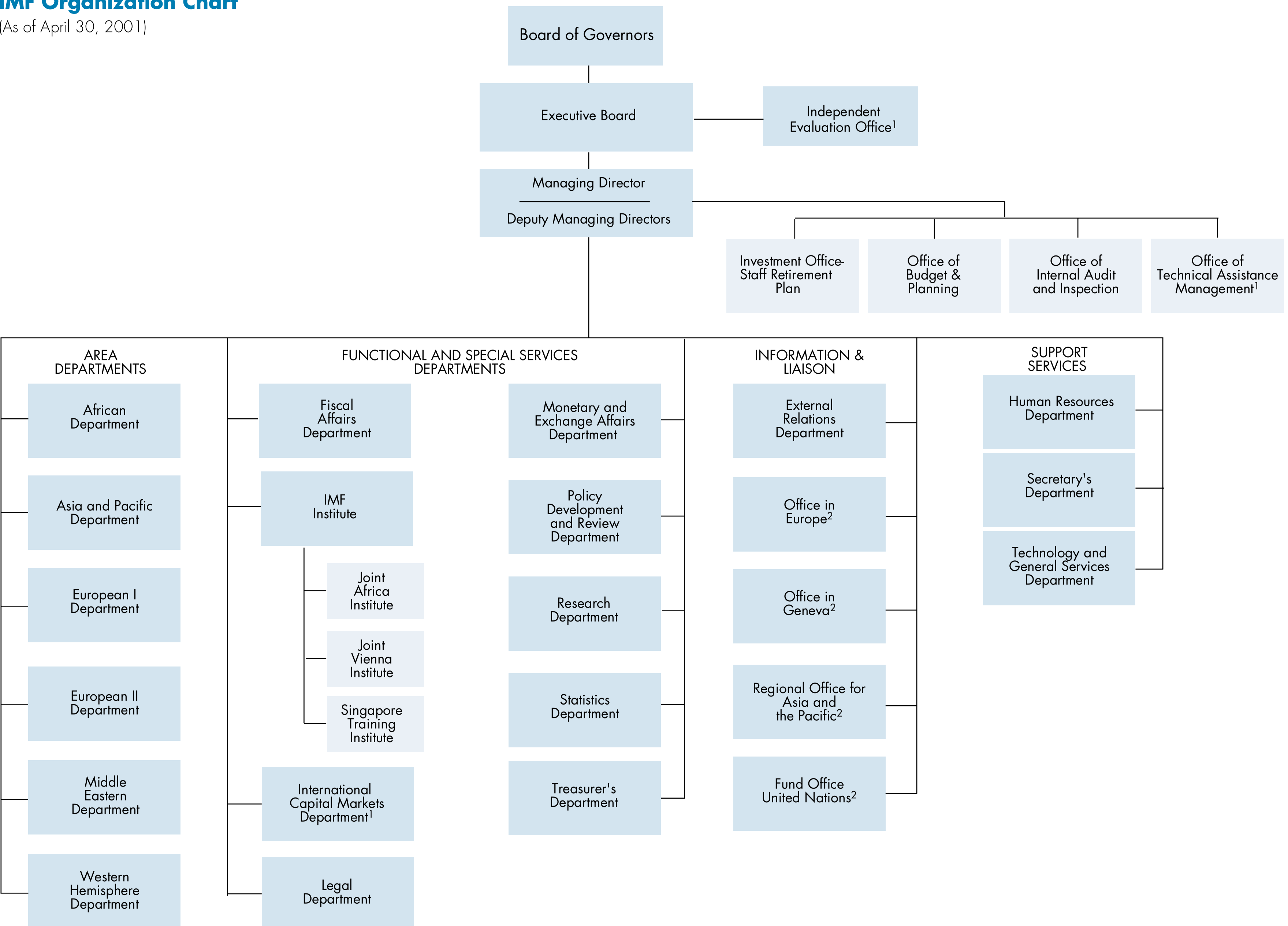
The IMF is governed by its Board of Governors, and its business is conducted by an Executive Board, a Managing Director, a First Deputy Managing Director, two other Deputy Managing Directors, and a staff of international civil servants. The institution's founding Articles of Agreement require that staff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

In announcing his intention in early May 2001 to leave the IMF, First Deputy Managing Director Stanley Fischer said he would depart his post later in 2001, once a smooth transition to his successor was arranged. Paying tribute to Mr. Fischer, Managing Director Köhler said, "When I came to the IMF a year ago, Stan Fischer committed to work with me at least through my initial period as Managing Director. He has been superb. In due course, there will be plenty of opportunity for the Fund—and myself —to formally express appreciation of Stan Fischer's service to this institution and its 183 members over the past seven years. Right now, I would like to confine myself to personal expression. Stan Fischer is an extraordinary economist and public servant. I have benefited enormously from his advice and support in my first year at the Fund. I have particularly benefited from his integrity and humanity. I am sorry he will be leaving so soon and I wish he had remained longer."

Executive Board

The IMF's 24-member Executive Board, as the IMF's permanent decision-making organ, conducts the institution's day-to-day business. In 2000, the Board held 130 formal meetings, 5 seminars, and 100 informal, committee, and other meetings. The Executive Board's discussions are largely based on papers prepared by IMF management and staff. In 2000, the Board spent 60 percent of its time on member country matters (Article IV consultations and reviews and approvals of IMF arrangements); 35 percent of its time on multilateral surveillance and policy issues (world economic outlook, developments in international capital markets, IMF financial resources, strengthening the international financial system, the debt situation, and issues related to IMF lending facilities and program design); and its remaining time on administrative and other matters.

Figure 8.1
IMF Organization Chart
(As of April 30, 2001)



[1]Operational in FY2002.
[2]Attached to the Office of Managing Director.

Box 8.1
Code of Conduct for Executive Directors and Ethics Website

As part of the IMF's continuing commitment to best practices and transparency in its own operations, the institution announced two initiatives in the area of ethical conduct during the financial year.

In August 2000, the Executive Board, drawing on existing internal practices, established a code of conduct intended to provide Executive Directors with guidance on ethical standards in connection with their role and responsibilities in the IMF. The code, which applies to the 24-member Executive Board, Alternate Executive Directors, and Advisors to Executive Directors, mandates regular financial disclosure reports and underlines the importance of the observance of the highest standards of ethical conduct.

Besides establishing guidelines for financial disclosure and basic conduct, the code also set up an Ethics Committee of five Executive Directors to consider matters relating to observance of the provisions of the code. These Directors will serve for two-year terms.

In February 2001, the IMF established a section on its public website dedicated to highlighting guidelines and issues related to staff ethics, financial disclosure, and dispute resolution. The section contains electronic links to the codes of ethical conduct and financial disclosure rules that IMF staff and Executive Directors must observe. The terms of reference for the IMF's Ethics Officer and Ombudsperson are also available on this section of the public website.

In addition to publishing the ethical codes and standards of the IMF, judgments, orders, and other information related to the dispute resolution activities of the IMF Administrative Tribunal are also now published on the IMF's public website. The Administrative Tribunal established on January 13, 1994, provides a judicial forum for resolving employment disputes arising between staff members and the IMF.

Departments

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

Area Departments

Six area departments—*African, Asia and Pacific, European I, European II, Middle Eastern*, and *Western Hemisphere*—advise management and the Executive Board on economic developments and policies in countries in their region. Their staffs are responsible also for putting together financial arrangements to support members' economic reform programs and for reviewing performance under these IMF-supported programs. Together with relevant functional departments, they provide member countries with policy advice and technical assistance and maintain contact with regional organizations and multilateral institutions in their geographic areas. Supplemented by staff in functional departments, area departments carry out much of the IMF's country surveillance work through direct contacts with member countries. In addition, 81 area department staff are assigned to members as IMF resident representatives (see Boxes 8.2 and 8.3).

Functional and Special Services Departments

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

The *IMF Institute* provides training for officials of member countries—particularly developing countries—in such areas as financial programming and policy, external sector policies, balance of payments methodology, national accounts and government finance statistics, and public finance.

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

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

Box 8.2
IMF Resident Representatives

At the end of April 2001, the IMF had 81 resident representatives covering 89 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere. These posts—usually filled by one IMF employee supported by local staff—help to enhance IMF policy advice and are often set up in conjunction with a reform program. The representatives, who typically have good access to key national policymakers, can have a major impact on the quality of IMF country work. In particular, resident representatives alert the IMF and the host country to potential policy slippages and provide on-site program support. They can also play an active role in IMF outreach in member countries. And, since the advent of enhanced initiatives for low-income countries, resident representatives have helped members develop their poverty reduction strategies (see Chapter 5) by taking part in country-led discussions on the strategy and presenting IMF perspectives. They also support monitoring of program implementation and institution building, working with different branches of government, civil society organizations, donors, and other stakeholders.

The *Policy Development and Review Department* plays a central role in the design and implementation of IMF financial facilities and other policies. Through its review of country and policy work, PDR ensures the consistent application of IMF policies and objectives throughout the institution, in the context of bilateral and multilateral surveillance and members' economic programs supported by IMF resources, including in such critical areas as transparency and crisis prevention. In recent years, the department has spearheaded the IMF's work in strengthening the international financial system, focusing and prioritizing conditionality, and the Poverty Reduction and Growth Facility and the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). With area departments, the Policy Development and Review Department assists member countries that are making use of IMF resources by helping mobilize other financial resources, including debt and program financing (through the Paris Club and international banks). The department plays a key role in the preparation of meetings of the International Monetary and Financial Committee and the Development Committee, as well as representing the IMF in other groups (the Group of 24, for example) and at other institutions (especially the World Bank).

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

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

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

Box 8.3
Hong Kong Sub-Office Opened

In early January 2001, the IMF opened in Hong Kong, Special Administrative Region, a sub-office of its Resident Representative Office in the People's Republic of China. At the opening, IMF Managing Director Horst Köhler made the following statement:

"I am pleased to visit Hong Kong for the opening of the IMF sub-office. The primary objective of the sub-office is to monitor financial and economic developments in the region. Hong Kong was a logical choice because, as a major financial center, Hong Kong SAR's markets play a key role in intermediating the flow of capital in the region. We believe that our presence in Hong Kong SAR will greatly enhance the IMF's surveillance and help us better understand emerging economic and financial issues. The office should play an important role in promoting and maintaining a dialogue with the international financial community and, in the process, help the Fund and the private capital markets contribute to the stability of the international financial system. I would like to thank the authorities for their support and encouragement in opening this office."

department for the conduct of safeguards assessments of member country central banks.

In March 2001, the Managing Director announced his intention to establish an International Capital Markets Department, bringing together functions previously performed in the Policy Development and Review, Monetary and Exchange Affairs, and Research Departments (see Box 3.5).

Information and Liaison

The *External Relations Department* plays a key role in making the IMF's policies and operations understandable to the general public and to the many individuals and institutions with a keen interest in the IMF. It edits, produces, and distributes the IMF's nonstatistical publications; provides information services to the press and general public; maintains contacts with nongovernmental organizations and parliamentary bodies; drafts speeches for management; and manages the IMF's website (see also Appendix V).

The IMF's Offices for Asia and the Pacific, in Europe, in Geneva, and at the United Nations maintain close contacts with other international and regional institutions (see Appendix IV).

Support Services

The *Technology and General Services Department* manages and delivers a full range of services essential for the IMF's operation. These include information services (information technology, telecommunications, document management, and library services); facilities and general administrative services (facilities management, building projects, travel management, graphics, and procurement services); and language services (translation, interpretation, and non-English-language publications). Having these services under the umbrella of one department facilitates planning for service delivery, increases efficiency by reducing some overlaps in related functions, and helps in developing and applying common instruments for measuring and assessing services. This also allows more efficient allocation of budgetary resources to meet service needs.

The *Human Resources Department* carried out an extensive review of its work in 2000, which resulted in a reformulated human resource strategy and a reorganization of the department aimed at strengthening its ability to help other departments develop and meet their human resource goals.

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

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

Staff

The Managing Director appoints a staff whose sole responsibility is to the IMF, whose efficiency and technical competence are expected to be, as set forth in the Articles of Agreement, of the "highest standards," and whose diversity by nationality reflects its membership and gives "due regard to the importance of recruiting personnel on as wide a geographical basis as possible." To provide the continuity and institutional memory from which the membership benefits, the IMF has an employment policy designed to recruit and retain a corps of international civil servants interested in spending a career, or a significant part of a career, at the IMF. At the same time, the IMF recognizes the value of shorter-term employment and recruitment of mid-career professionals consistent with the changing labor market and the benefit of fresh perspectives. In the case of a number of skills and jobs—relating mainly to certain services and highly specialized economic and financial skills—business considerations have called for shorter-term appointments or for outsourcing activities.

As of December 31, 2000, the IMF employed 728 staff at the assistant level and 1,727 professional staff (about two-thirds of whom were economists). In addition to its regular staff, the IMF had 380 contractual employees on its payroll, including experts, consultants, and other short-term staff. Of the IMF's 183 member countries, 133 were represented on the staff. (See Table 8.1 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Categories of Employment

The IMF's employment framework was revised in January 1999 to clarify and tighten criteria for employment and allow for flexibility in meeting the institution's staffing needs. Based on the findings of a review of positions and functions undertaken in late 1999 and early 2000, the Board approved management's recommendation to reclassify 217 positions. Of these, 181 contractual positions and 34 indirect vendor arrangements were converted to staff jobs, and 2 indirect vendor arrangements were made contractual positions.

These positions were then filled through a competitive process. The Board also endorsed a streamlining and consolidation of outsourcing arrangements.

Recruitment and Retention

Over the course of 2000, 311 new staff members joined the IMF—229 external recruits and 82 conver-

Table 8.1
Nationality Distribution of Professional Staff by Region
(In percent)

Region[1]	1980	1990	2000
Africa	3.8	5.8	5.7
Asia	12.3	12.7	14.8
Japan	1.4	1.9	1.4
Other Asia	10.9	10.8	13.4
Europe	39.5	35.1	35.1
France	6.9	5.5	4.8
Germany	3.7	4.3	5.3
Italy	1.7	1.4	3.1
United Kingdom	8.2	8.0	6.2
BRO countries[2]	...	...	1.9
Other Europe	19.0	15.9	13.8
Middle East	5.4	5.5	5.4
Western Hemisphere	39.1	41.0	39.0
Canada	2.6	2.8	3.9
United States	25.9	25.9	24.8
Other Western Hemisphere	10.6	12.3	10.3
Total	100.0	100.0	100.0

[1] Regions are defined on the basis of the country distribution of the IMF's area departments. The European region includes countries in both the European I and European II Departments. The Middle East region includes countries in North Africa.
[2] The Baltics, Russia, and other countries of the former Soviet Union.

sions to staff status under the Categories of Employment exercise (described above). The 229 external hires (140 economists, 30 hires in professional and managerial grades in specialized career streams, and 59 assistants) represent an increase of 11 over the 218 staff members hired in 1999. Of the external hires in 2000, 86 were midcareer economists and 47 entered the Economist Program. (The two-year Economist Program serves to familiarize entry-level economists with the work of the IMF by placing them in two different departments, each for a 12-month period, and then offering regular staff appointments to those who perform well.)

During 2000, 129 staff separated from the organization. The separation rate of staff in professional and managerial grades was 5.5 percent (88 staff) in 2000. This represents a decline from 5.9 percent (92 staff) in 1999 and 8.1 percent (122 staff) in 1998. (The high turnover in 1998 was largely the result of a sudden and sharp rise in resignations of economists joining private sector financial firms and a larger number of retirements, including those encouraged by incentives.) Ten of the 29 economists who resigned in 2000 joined private financial sector institutions, which have attracted some 60 IMF economists in recent years.

Stress on IMF Staff

Work-related stress among IMF staff has grown steadily in recent years as a result of both internal and external expectations, and Executive Directors have expressed concerns about the heavy work pressures. At the end of 1999, a Working Group on Stress, appointed by management, submitted a report proposing a practical plan for reducing negative stress. Also, the IMF's Office of Internal Audit and Inspection completed, in March 2000, a review of personnel management practices in IMF departments. Finally, a survey by the IMF's Staff Association Committee suggested measures to address stress related to staff's mission travel to member countries.

Building on these recommendations, management and the Human Resources Department issued a statement introducing a number of initiatives to reduce stress and improve human resource management practices in the IMF. The plan included measures in six areas: (1) establishing a better balance between workload and resources; (2) improving managerial practices and strengthening accountability; (3) increasing the flexibility of work arrangements; (4) improving the mission work environment; (5) giving more guidance to individuals on how to deal with stress; and (6) addressing stress arising from living abroad and traveling frequently.

With regard to overwork, the Executive Board, management, and staff agree that the approach must consist of a combination of a more sharply focused institutional mandate with clear priorities and the elimination of low-priority activities, on the one hand, and the provision of sufficient resources for new tasks on the other. The Human Resources Department decided to begin quarterly stress surveys of staff to monitor progress. The Stress Reduction Plan calls for:

- Better resource planning through annual departmental human resource plans;
- Expecting and rewarding good managerial practices and behavior of senior staff, in promotion standards and in annual performance assessments;
- Providing greater flexibility in work arrangements by implementing a Compressed Work Schedule in a number of departments;
- Creating a mission code of conduct to reduce stress on missions. A code of conduct is being reviewed by the departments for adoption; and
- Providing staff with information and guidance to help them deal with stress.

To help reduce stress on families including dual-career couples, the IMF has opened a child care center at its Washington headquarters, and has discouraged mission travel during the first 60 days of IMF employment and before and after the birth/adoption of a child; the Human Resources Department and manage-

ment also began monitoring all individuals whose travel exceeds 50 business days a year.

Salary Structure

To recruit and retain the staff it needs, the IMF has developed a compensation and benefits system designed to be competitive, to reward performance, and to take account of the special needs of a multinational and largely expatriate staff. The IMF's staff salary structure is reviewed and, if warranted, adjusted annually on the basis of a comparison with salaries paid by selected private financial and industrial firms and public sector organizations mainly in the United States, but also in France and Germany. On the basis of updated analyses of comparator salaries, the salary structure was increased by 4.5 percent for FY 2001, and the Board approved an increase of 4.8 percent for FY 2002 (see Table 8.2 for the IMF staff salary structure).

Table 8.2
IMF Salary Structure, effective May 1, 2001
(In U.S. dollars)

Grade	Range Minimum	Range Maximum	Illustrative Position Titles
A1	21,360	32,060	Not applicable (activities at this level have been outsourced)
A2	23,940	35,880	Driver
A3	26,780	40,180	Staff Assistant (Clerical)
A4	30,000	45,040	Staff Assistant (Beginning Secretarial)
A5	33,650	50,450	Staff Assistant (Experienced Secretarial)
A6	37,600	56,460	Senior Secretarial Assistant, Other Assistants (e.g., Editorial, Computer Systems, Human Resources)
A7	42,170	63,270	Research Assistant, Administrative Assistant
A8	47,230	70,870	Senior Administrative Assistant (e.g., Accounting, Human Resources)
A9	50,240	75,380	Librarian, Translator, Research Officer, Human Resources Officer
A10	57,790	86,670	Accountant, Research Officer, Administrative Officer
A11	66,360	99,560	Economist (Ph.D. entry level), Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A12	74,310	111,470	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A13	83,250	124,850	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A14	93,220	139,860	Deputy Division Chief, Senior Economist
A15/B1	105,350	158,050	Division Chief, Deputy Division Chief
B2	121,460	176,220	Division Chief
B3	144,330	187,800	Assistant Department Director, Advisor
B4	168,190	210,230	Deputy Department Director, Senior Advisor
B5	198,060	237,740	Department Director

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

Management Remuneration

Reflecting the responsibilities of each management position and the relationship between the management and staff salary structures, the salary structure for management, as of July 1, 2000, is as follows:

Managing Director	$317,710[1]
First Deputy Managing Director	$266,790
Deputy Managing Directors	$254,080

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

Executive Board Remuneration

Upon the recommendation of the Board of Governors' Committee on the Remuneration of Executive Directors, the Governors approved from July 1, 2000, increases of 5.0 percent in the remuneration of Executive Directors and 5.6 percent in the remuneration of Alternates. The remuneration of Executive Directors is $168,660.[2] The remuneration of Alternate Executive Directors is $145,890.[3] In previous years, a supplemen-

[1]In addition, a supplemental allowance of $56,860 is paid to cover expenses.

[2] In determining the salary adjustments for Executive Directors for 2000, the committee took into consideration the remuneration and core responsibilities of a variety of comparator positions. These included the permanent representatives to the European Commission, the Organization of Economic Cooperation and Development, the World Trade Organization, members of the Governing Board of the European Central Bank, economic ministers/counsellors at embassies in Washington, and the highest-level civil servant in the ministry of finance and central bank for selected member countries.

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

Table 8.3
Gender Distribution of Staff

Staff	1980 Number	1980 Percent	1990 Number	1990 Percent	2000 Number	2000 Percent
All staff						
Total	1,444	100.0	1,774	100.0	2,456	100.0
Women	676	46.8	827	46.6	1,142	46.5
Men	768	53.2	947	53.4	1,314	53.5
Support staff						
Total	613	100.0	642	100.0	728[1]	100.0
Women	492	80.3	540	84.1	618	84.9
Men	121	19.7	102	15.9	110	15.1
Professional staff						
Total	646	100.0	897	100.0	1,386	100.0
Women	173	26.8	274	30.5	484	34.9
Men	473	73.2	623	69.5	902	65.1
Economists						
Total	362	100.0	529	100.0	877	100.0
Women	42	11.6	70	13.2	201	22.9
Men	320	88.4	459	86.8	676	77.1
Specialized career streams						
Total	284	100.0	368	100.0	509	100.0
Women	131	46.1	204	55.4	283	55.6
Men	153	53.9	164	44.6	226	44.4
Managerial staff						
Total	185	100.0	235	100.0	342[1]	100.0
Women	11	5.9	13	5.5	40	11.7
Men	174	94.1	222	94.5	302	88.3
Economists						
Total	99	100.0	184	100.0	271	100.0
Women	4	4.0	9	4.9	25	9.2
Men	95	96.0	175	95.1	246	90.8
Specialized career streams						
Total	86	100.0	51	100.0	71	100.0
Women	7	8.1	4	7.8	15	21.1
Men	79	91.9	47	92.2	56	78.9

[1] Includes only staff on duty.

tal allowance had been paid to Executive Directors and Alternate Executive Directors. In July 2000, the Board of Governors' Committee on the Remuneration of Executive Directors recommended that the allowance be incorporated into salary and the Governors approved this change.

Diversity

The Executive Board continued to emphasize staff diversity as important for improving the IMF's effectiveness as an international institution. The IMF's Senior Advisor on Diversity, who reports to the Managing Director, designed a number of initiatives and indicators to strengthen and monitor nationality and gender diversity (Tables 8.1 and 8.3), as well as diversity management in the organization. The Senior Advisor works closely with the Human Resources Department and other departments to identify needs and opportunities for promoting diversity and implementing departmental action plans, which have been prepared and monitored annually since 1996. In FY 2001, departments integrated these action plans into comprehensive human resource plans, which henceforth will provide a framework for the IMF's diversity efforts. Typically, diversity actions include measures to help ensure grade and salary equity, initiatives in recruitment and career development, orientation and mentoring programs for newcomers, measures to improve communication and increase the transparency of human resources policies and procedures, and promotion of family-friendly work arrangements and benefits, including the extension of the Medical Benefits Plan to domestic partners.

In addition, the IMF is placing more emphasis on people management skills and diversity sensitivity in the performance assessment of supervisors and in promotion decisions, which are of particular importance in an institution with a diverse workforce.

The departmental annual progress reports submitted to the Human Resources Department in FY2001 showed improvements in diversity awareness, systematic approaches, and people management practices. At the IMF level, progress was achieved in the recruitment, promotion, and overall representation of underrepresented staff groups among junior-level staff. Progress toward having more women and developing country staff at the managerial level, however, stalled in 2000 and persistent efforts will be needed to improve the balance at this level. Achieving satisfactory diversity of staff in an institution that emphasizes career employment is a continuing goal that requires concerted effort.

Administrative and Capital Budgets

The IMF has entered a new period that calls for a more focused and strengthened role in the international monetary system, to be achieved without a significant further increase in the institution's size. During the past few years, in the wake of the Asian and other regional crises, the IMF expanded to address the immediate requirement of the countries concerned, as well as

to contribute to the prevention and resolution of financial crises. This expansion was preceded by a five-year period of little or no growth in staffing.

The IMF's internal budget process was reviewed by a panel of external experts beginning in late 2000. Their report and findings were discussed at an Executive Board seminar in spring 2001. There was broad support among Board members for the general direction of the reforms proposed in the evaluators' report, which can build on changes already introduced over the last two years. The Executive Board endorsed management's proposal to establish a task force that would, in cooperation with departments, consider the gradual introduction of a more output-oriented budget framework. The task force will also pursue certain specific proposals aimed at more immediate improvements in the transparency, accountability, and efficiency in the IMF's budgetary system. It was also agreed that the medium-term budget exercise, suspended last year, would be resumed.

Table 8.4
Estimated Cost of Major IMF Activities, Financial Years 2000–02[1]
(In millions of U.S. dollars)

Activity	Financial Year 2000	Percent of Total	Financial Year 2001	Percent of Total	Budget Financial Year 2002	Percent of Total
Staff and management[2]						
Surveillance	151.1	25.9	162.8	25.5	188.0	27.0
Use of Fund resources	123.5	21.2	137.1	21.5	157.4	22.6
Technical assistance	110.0	18.9	118.4	18.6	124.5	17.9
Support functions	143.1	24.6	159.3	25.0	160.3	23.1
Subtotal	527.9	90.5	577.6	90.5	630.2	90.6
Board of Governors and Executive Board[3]	55.1	9.5	60.4	9.5	65.2	9.4
Total	**583.0**	**100.0**	**638.0**	**100.0**	**695.4**	**100.0**

Note: Because of rounding, details may not add to total.
[1]Cost estimates for financial years 2000 and 2001 are based on year-end data.
[2]The cost of general supervision, training, professional development, and leave has been distributed proportionately to each of the other categories.
[3]The Executive Board costs include salaries and benefits of Executive Directors, Alternates, and Assistants; business and other travel; communications; building occupancy; books and printing; supplies and equipment; information technology; and other miscellaneous costs of Executive Directors' offices. The cost of the Board of Governors consists mainly of the travel and subsistence of Governors, the costs of staff support services provided for the Board of Governors, including the costs of the Annual Meetings, and other miscellaneous administrative services.

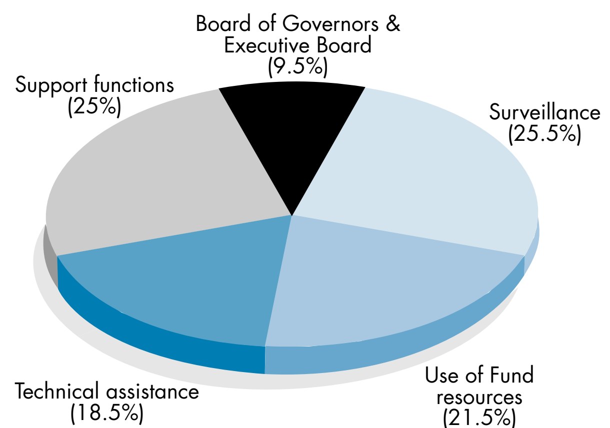
Budget Framework for FY2002

The Committee on the Budget (a subcommittee of the Executive Board) agreed on a budget framework based on zero growth in the number of staff, with the exception of 15 new positions for the new International Capital Markets Department, and a small strategic research unit, and a modest increase in the dollar budget. The framework's budget objectives are to help focus the work and the resources of the IMF on its core priorities, reduce work pressures and stress, and maintain the size of the organization. These are to be achieved through redeployment of staff, reduction of activities, and streamlining of practices. Some 26 positions are to be eliminated throughout the IMF and redeployed to priority areas, especially with respect to the new initiatives. An additional 40–50 positions are expected to be redeployed to help form the International Capital Markets Department.

Programs, Budgets, and Actual Expenditure in FY2001

The major functional areas of the IMF are represented in the form of three core program areas: surveillance, financing, and technical assistance. (See Table 8.4 for the estimated administrative costs for these major activities, as well as for support functions, the Board of Governors, and the Executive Board, and Figure 8.2 for the distribution by these programs of allocated expenditure in FY2001.) The IMF's Administrative Budget for the financial year ended April 30, 2001, authorized total spending of $689.9 million, or $650.9 million net of estimated reimbursements. The FY2001 Capital Budget of $50.6 million included $23.5 million

Figure 8.2
Estimated Cost of Major Activities, FY2001
(As a percent of total costs)



Note: Information is based on financial year 2001 outturn of expenditures. The cost of general supervision, training, professional development, and leave has been distributed proportionally to each of the other categories. Because of rounding, details may not add to total.

for building facility projects and $27.1 million for information technology projects. Actual administrative expenditures during the year totaled $638.0 million net of reimbursements, and capital project disbursements totaled $34.6 million (Table 8.5).

Programs and Budgets in FY2002

In the course of the last few years, several initiatives have been added to the IMF's main program areas. These include the Financial Sector Assessments Program (FSAP) and the Reports on the Observance of

Table 8.5

Administrative and Capital Budgets, Financial Years 1999–2002[1]

(Values expressed in millions of U.S. dollars and SDRs)

	Financial Year Ended April 30, 1999: Actual Expenses	Financial Year Ended April 30, 2000: Actual Expenses	Financial Year Ended April 30, 2001: Actual Expenses	Financial Year Ending April 30, 2002: Budget
		(In millions of U.S. dollars)		
Administrative Budget				
I. Personnel Expenses				
Salaries	249.2	267.7	292.1	322.7
Other Personnel Expenses	122.0	149.4	154.0	162.9
Subtotal	**371.2**	**417.1**	**446.1**	**485.6**
II. Other Expenses				
Business Travel	47.1	48.8	56.3	65.5
Other Travel	28.1	35.6	35.0	38.1
Communications	11.0	11.6	11.9	13.6
Building Occupancy	44.9	48.1	53.2	58.2
Books and Printing	9.7	11.6	12.8	13.1
Supplies and Equipment	9.5	8.5	10.0	10.4
Information Technology	26.0	25.0	30.5	31.6
Miscellaneous	13.6	18.0	19.7	20.8
Subtotal	**189.9**	**207.2**	**229.4**	**251.4**
III. Reimbursements	(40.5)	(41.3)	(37.5)	(41.6)
Total Administrative Budget	**520.6**	**583.0**	**638.0**	**695.4**
Less: Reimbursement for administering the SDR Department	(4.8)	(4.5)	(3.1)	(4.7)
Reimbursement for administering the SAF/ESAF[2]	. . .	. . .	. . .	. . .
Net Administrative Budget expenses[3]	**515.9**	**578.5**	**634.9**	**690.6**
Capital Budget				
Capital project budgets[4]	14.4	67.3	50.6	40.0
Capital project disbursements	43.9	39.5	34.6	—
Total Budget Expenditure[5]	**564.5**	**622.5**	**672.6**	—
Memorandum item		*(In millions of SDRs)*		
Administrative expenses reported in the financial statements[6]	392.1	448.4	384.6	—

[1]Administrative Budget as approved by the Board for the financial year ending April 30, 2002, compared with actual expenses for the financial years ended April 30, 1999, April 30, 2000, and April 30, 2001; and Capital Budgets as approved by the Board for capital projects in financial years 1999, 2000, 2001, and 2002. Due to rounding, details may not add to total.

[2]The following reimbursements were not included in the Administrative Budget by Executive Board decision: FY1999, $56,180; FY2000, $62,651; FY2001, $71,583; and FY2002, $79,506.

[3]Net Administrative Budget expenses exclude valuation or loss on administrative currency holdings.

[4]Multiyear Capital Budgets for projects beginning in each financial year.

[5]Total administrative budget expenditure and capital project disbursements.

[6]The Fund's financial statements, which are prepared in accordance with International Accounting Standards (IAS), include depreciation and account for employee benefits in accordance with IAS 19. These expenses are accounted for somewhat differently for budget purposes. Differences include a one-time adjustment of SDR 268 million in FY2000 for financial reporting purposes that was excluded for budget purposes. The adjustment was made to comply with a revision to IAS 19.

Standards and Codes (ROSCs), which support surveillance. The Poverty Reduction and Growth Facility (PRGF) for low-income countries and the enhanced Initiative for Heavily Indebted Poor Countries (HIPCs) represent improvements in facilities for the use of IMF resources. In addition, the Technical Assistance Program is being strengthened through better planning and prioritization. Most of the increase in the size of the staff recently authorized was needed to undertake these new activities. In FY2002, a small increase in staff resources was authorized to bring the new programs up to their intended capacity. In addition, the establishment of the International Capital Markets Department, primarily through staff reallocation, will enable the IMF to focus more on financial market issues, a core area of its mandate. In April 2001, the Executive Board approved appropriations for administrative budget expenditures for FY2002 of $736.9 million (or $695.4 million net of estimated reimbursements), a 6.8 percent increase over the revised budget of the previous year. More than a third of this increase relates to earlier Executive Board decisions, namely, the full-year impact of a staffing increase for the new initiatives authorized in FY2001, an increase in staff in most Executive Directors' offices, and the creation of an Independent Evaluation Office (EVO). In addition, a capital projects budget of $40 million was approved for building facilities, information technology equipment, and major software development.

New Building

Planning is under way to construct a second headquarters building on property owned by the IMF immediately alongside the existing headquarters building. The IMF selected a development manager and an architectural firm through competitive procurement, and the design is well advanced. Under current projections, the new building will make it possible to house all staff within the headquarters complex, reducing overall costs by eliminating the need to lease office space. The project is expected to be completed by 2005.

Independent Evaluation Office

During FY2000, the Executive Board decided to establish an Independent Evaluation Office to complement the ongoing internal and external reviews and evaluations of IMF work and thereby improve the institution's ability to draw lessons from its experience and more quickly integrate improvements into its future work. The key motivations for the EVO are to enhance the learning culture within the IMF, strengthen the IMF's external credibility, promote better understanding of the IMF's work, and support the Executive Board's institutional governance and oversight responsibilities. The office—which is expected to be operational before the Fall 2001 Annual Meetings—will conduct objective and independent evaluations of IMF policy and operations.

Background

The idea of establishing an independent evaluation office at the IMF goes back at least to January 1993 when the Executive Board considered a management proposal for a separate evaluation office. Despite extensive discussions, however, a consensus was not reached to proceed with the proposal at that time. Instead, the IMF continued its existing practice of internal evaluations, which included self-evaluations on such issues as IMF-supported programs in the Asian crisis, the Enhanced Structural Adjustment Facility (ESAF), and surveillance. Also, the Office of Internal Audit and Inspection (OIA) conducted reviews of the IMF's resident representative program and of technical assistance.

Subsequently, the IMF sponsored and published a number of evaluations by external experts, including of such fundamental aspects of its work as the ESAF, its internal research activities, and surveillance. In March 2000, the Executive Board reviewed the experience under this approach, drawing on views from both within and outside of the official sector. Among the general concerns raised with the exclusive use of external experts for independent evaluations was that—despite the generally high quality of the evaluations to date—a lack of familiarity with the details of the IMF's operations and mandate could limit the practical value of their advice. Also, the external experts were unavailable to assist Directors over the long-term implementation of their work and in maintaining the institutional memory of experience gained through particular evaluations.

Consequently, the Executive Board decided on April 10, 2000, to set up an Independent Evaluation Office in the IMF. The International Monetary and Financial Committee (IMFC), in its communiqué of April 16, 2000, urged the Board to agree on the terms of reference, structure, staffing, and operating procedures and to report back to the Committee at its fall 2000 meeting.

Developments During FY2001

The Executive Board met in early August 2000 to discuss a background paper that elaborated on the operational modalities of the Independent Evaluation Office. While providing clarity on fundamental issues such as institutional accountabilities, the scope of activities, organizational structure, the responsibilities of EVO's Director, the EVO budget, and some operational considerations, Directors were cognizant of the need not to be overly prescriptive on such other issues as how the unit would be managed. They realized that—for EVO to be able to function independently—the precise

Box 8.4
IMF's Independent Evaluation Office: Terms of Reference

Purpose

The Independent Evaluation Office (EVO) has been established to systematically conduct objective and independent evaluations on issues, and on the basis of criteria, of relevance to the mandate of the Fund. It is intended to serve as a means to enhance the learning culture within the Fund, strengthen the Fund's external credibility, promote greater understanding of the work of the Fund throughout the membership, and support the Executive Board's institutional governance and oversight responsibilities. EVO has been designed to complement the review and evaluation work within the Fund and should, therefore, improve the institution's ability to draw lessons from its experience and more quickly integrate improvements into its future work.

Structure and Accountabilities

EVO will be independent of Fund management and staff and will operate at arm's length from the Fund's Executive Board. Its structure and modalities of operation must protect its operational independence—both actual and perceived.

A Director, to be appointed by the Executive Board, will head EVO. The Director's term of appointment will be for a period of four years renewable for a second term of up to three years. The Director's appointment may be terminated at any time with the approval of the Executive Board. At the end of the term of service, the Director will not be eligible for appointment or reappointment to the regular staff of the Fund. The Director will be responsible for the selection of EVO personnel (including external consultants) on terms and conditions to be determined by the Board with a view to ensuring that the office is staffed with independent and highly qualified personnel.

Responsibilities

The Director of EVO will be responsible for the preparation of its work program. The content of the work program should focus on issues of importance to the Fund's membership and of relevance to the mandate of the Fund. It should take into account current institutional priorities, and be prepared in light of consultations with Executive Directors and management, as well as with informed and interested parties outside the Fund. The Director will present EVO's work program to the Executive Board for its review.

EVO, through its Director, will report regularly to the Executive Board, including through the preparation of an annual report. It is also expected that the International Monetary and Financial Committee will receive regular reports on the activities and findings of EVO.

With respect to individual evaluations, staff, management, and—when appropriate—the relevant country authorities will be given an opportunity to comment on the assessments being presented to the Executive Board.

The Director of EVO, in consultation with Executive Directors, will prepare a budget proposal for EVO for consideration and approval by the Executive Board. Its preparation will be independent of the budgetary process over which management and the Office of Budget and Planning have authority, but its implementation will be subject to the Fund's budgeting and expenditure control procedures. EVO's budget will be appended to that of the Executive Board within the Fund's Administrative Budget.

If requested by the Executive Board, EVO will provide technical and administrative support for any external evaluations launched directly by the Executive Board.

Consultation, Publication, and External Relations

In carrying out its mandate, including the preparation of its work program, EVO will be free to consult with whomever and whichever groups it deems necessary, both within and outside the Fund.

EVO will have sole responsibility for drafting its evaluations, annual reports, press releases, and other documents or public statements.

EVO's work program will be made public and there will be a strong presumption that EVO reports will be published promptly (within the constraints imposed by the need to respect the confidentiality of information provided to the Fund by its members), unless, in exceptional circumstances, the Executive Board were to decide otherwise.

Publication of evaluations will be accompanied by comments from management, staff, and others, including relevant country authorities, where appropriate, along with the conclusions reached by the Board in considering the evaluation report.

Relations with Fund Staff and Management

In conducting its work, EVO should avoid interfering with operational activities, including programs, or attempting to micromanage the institution.

Review of Experience with EVO

Within three years of the launch of EVO operations, the Executive Board should initiate an external evaluation of EVO to assess its effectiveness and to consider possible improvements to its structure, mandate, operational modalities, or terms of reference. Without prejudging how that review would be conducted, it should be understood that the review would include the solicitation of broad-based input from outside the official community.

manner in which it was managed, including the specifics of its recruitment policy, should be left to its Director.

At the conclusion of the discussion, the Board agreed that the background paper on which the discussion was based and the Chairman's concluding remarks would be posted on the IMF's website to provide an opportunity for public comment. Directors also supported the preparation of terms of reference for EVO that would be presented as part of the report to the IMFC in Prague. Finally, they endorsed the recommendation that the process of engaging an executive search firm to assist the Board in appointing the Director of EVO should begin.

On the basis of the August discussion and input received from the public in the period immediately following the posting of the background paper, the Evaluation Group of Executive Directors drafted terms of reference for EVO (see Box 8.4), which were discussed and approved by the Executive Board in September 2000 and later endorsed by the IMFC.

In December, the Board named a firm to assist in identifying candidates for the director of the office. In April 2001, the Board offered the position as first Director of the IMF's Independent Evaluation Office to Montek Singh Ahluwalia of India; shortly thereafter Mr. Ahluwalia accepted the position, effective July 2001. At the time of his appointment, Mr. Ahluwalia was a member of the Indian Planning Commission, and of the Economic Advisory Council to the Prime Minister of India. He was Finance Secretary at the Ministry of Finance of India between 1993 and 1998, and has held a range of senior policy positions within the Indian government. A prominent economist who has written and spoken extensively on national and international economic issues, Mr. Ahluwalia has also worked at the World Bank.

Process for Selecting the Managing Director

In July 2000, the IMF and the World Bank set up separate Working Groups to review the process for selecting the heads of their respective institutions. Each group met at least monthly to review past practices and develop work programs. The chairs of the Bank and Fund Working Groups participated in each other's meetings as observers and exchanged working papers and minutes. The Working Groups subsequently prepared interim reports to their respective Boards in September 2000. Both Working Groups met jointly several times and agreed to prepare a draft joint report for submission to their respective Executive Directors.

On April 26, 2001, the IMF Executive Board considered the Draft Joint Report of the Bank Working Group to Review the Process for Selection of the President and the Fund Working Group to Review the Process for Selection of the Managing Director. Directors agreed on the importance of achieving a more transparent and open selection process and endorsed the report as guidance for future selection processes. The Board also agreed to transmit the Draft Report to the International Monetary and Finance Committee for its meeting on April 29, 2001, and to make the report publicly available at that time. The Executive Board further agreed that strict parallelism with the Bank should be observed.

The IMF Working Group was chaired by Yukio Yoshimura, Executive Director for Japan. Other Executive Directors who were members of the Working Group were Thomas Bernes (Canada), Michael Callaghan (Australia), Bernd Esdar (Germany), Aleksei Mozhin (Russia), Hernan Oyarzabal (Venezuela), Cyrus Rustomjee (South Africa), and Shakour Shaalan (Egypt).

Management and Senior Staff Changes

Shortly after the end of the financial year, on May 8, 2001, First Deputy Managing Director Stanley Fischer announced his intention to leave his position later in 2001. Earlier, on March 7, the Managing Director had announced that Michael Mussa, IMF Economic Counsellor and Director of the Research Department, would be relinquishing his post on June 29, and on May 14, it was announced that Jack Boorman, Counsellor and Director of the Policy Development and Review Department, would be leaving his position later in the year.

On June 7, the Managing Director proposed the appointment of Anne Krueger, a Stanford University professor and former Vice President of the World Bank, as Mr. Fischer's successor. At the same time, he announced his intention to appoint Directors for the Research Department and Policy Development and Review Department and for the newly created International Capital Markets Department. Gerd Häusler, formerly chairman of Dresdner Bank AG's investment banking arm and a member of the banking group's Managing Board, would be Counsellor and Director of the International Capital Markets Department. Harvard University economist Kenneth S. Rogoff, an authority on international economics, would become Economic Counsellor and Director of the IMF's Research Department, succeeding Mr. Mussa. Timothy Geithner, former U.S. Treasury Undersecretary for International Affairs and currently a Senior Fellow for International Economics at the Council of Foreign Relations, would become Director of the Policy Development and Review Department, succeeding Mr. Boorman.