The ESAF and the HIPC Initiative

Since the mid-1980s, the IMF has provided concessional financing through the Enhanced Structural Adjustment Facility (ESAF) and its predecessor, the Structural Adjustment Facility (SAF), to respond to the balance of payments difficulties confronting many of the world's poorest developing countries. In December 1993, the Board enlarged and extended the ESAF to ensure continued concessional support by the IMF for low-income countries, and in September 1996, it approved an overall framework for continuing ESAF operations. As of April 30, 1998, SDR 1.8 billion had been disbursed under the 38 SAF arrangements approved for 37 countries, and SDR 6.4 billion had been disbursed under the 71 ESAF arrangements approved for 48 countries (see also Chapter XII).

Notwithstanding the efforts of the international community to channel external finance and debt relief to developing countries through a wide range of mechanisms, many heavily indebted poor countries (HIPCs) have continued to experience difficulty in meeting their external debt-service obligations. To address the problems of those countries, in September 1996, the IMF and the World Bank approved an Initiative to provide special assistance to HIPCs pursuing sound adjustment and reform programs supported by the IMF and World Bank, but for which traditional debt-relief mechanisms were not adequate to secure a sustainable external debt position over the medium term. For eligible countries, all creditors would provide assistance sufficient to reduce the debt burden to sustainable levels. The IMF's contribution to the HIPC Initiative is in the form of grants in most cases—with the possibility of escrowed loans in others—that are used to meet part of indebted members' debt-service obligations to the IMF. World Bank contributions are channeled mainly through the International Development Association (IDA)–administered HIPC Trust Fund (which is also a vehicle for other creditors).

Mobilizing Financing

The Board met twice during the financial year to discuss the status and possible options for the financing of the ESAF and the HIPC Initiative. It reaffirmed the overall framework agreed in September 1996 (see Box 10), including the estimate of total financing needs of SDR 2.8 billion. Pledges of bilateral contributions toward meeting these needs were roughly SDR 1.25 billion at the time of the Board's November 1997 review of the situation and increased only very slightly during the remainder of the financial year. These pledges were subject to clarification regarding amount, timing, and form of contribution, and some were subject to special conditions. To ensure the full funding of the IMF's commitments under the HIPC Initiative in the first stage of its implementation, the Board authorized—as a bridge to the full funding of the ESAF and of the HIPC Initiative—the transfer, as needed, of up to SDR 250 million from the ESAF Trust Reserve Account to the Special Disbursement Account to be used in providing Trust grants or Trust loans to the HIPCs. In addition, the Board decided to forgo the reimbursement to the General Resources Account (GRA) of the costs of administering the ESAF Trust in 1997/98 and 1998/99 and to transfer the corresponding amounts from the ESAF Trust Reserve Account to the ESAF-HIPC Trust.

In their November 1997 discussion, Directors stressed the urgency of securing the additional resources required to fully finance the ESAF and the HIPC Initiative, citing the costs of delays in terms of lost investment income. Directors believed that further efforts should be made to secure additional bilateral contributions, but most speakers felt that there would remain a need to supplement such contributions from the IMF's own resources. Although most Directors, in this context, continued to favor sales of gold of up to 5 million ounces to "optimize the management of the institution's reserves," a few remained opposed. Directors agreed that it was important to have broad support for such a decision and that the Board should return to the matter in 1998.

At its meeting in Washington in April 1998, the Interim Committee noted the need to reactivate the efforts by the IMF to secure the full financing of the

Box 10
ESAF Resources

Given the Board consensus that the ESAF was, and should remain, the centerpiece of the IMF's support for the poorest countries—including in the context of the HIPC Initiative—Directors agreed in September 1996 on a framework for continuing ESAF operations. Existing ESAF resources are expected to meet demands until about the end of 2000. Resources to fund a *self-sustained ESAF,* with a commitment capacity of about SDR 0.8 billion a year, will then become available in the year 2005, or perhaps earlier, as reserves previously set aside to provide security for ESAF lenders against the risk of nonpayment by borrowers are freed as lenders are repaid. This will leave an *interim ESAF* period of about four years during which financing of an estimated SDR 1.7 billion will need to be mobilized to cover interest subsidies. In addition, SDR 1.1 billion is estimated to be needed for special ESAF operations under the HIPC Initiative.

ESAF and the HIPC Initiative. In view of the current and expected future commitments under the HIPC Initiative, and the significant costs resulting from delay in mobilizing the necessary financial resources, the Committee urged all members to move quickly to complete the financing of these initiatives as soon as possible and asked the Executive Board to report back to it on this issue at the Committee's next meeting in October 1998.

Progress in Implementing the HIPC Initiative

To obtain assistance under the HIPC Initiative, a country must be eligible for concessional assistance from the IMF and World Bank, face an unsustainable debt burden even after the application of traditional debt-relief mechanisms, and establish a track record of reform and sound policies through IMF- and World Bank–supported programs. Stages in the decision-making process under the Initiative are set out in Figure 4; these include a so-called *decision point,* when the Board of the IDA, which administers funds for the Initiative for the World Bank Group, and the Board of the IMF formally decide on a country's eligibility and precommit assistance under the Initiative; and a *completion point,* when the two Boards decide that a country has met the conditions for assistance, allowing that assistance to be disbursed.

In April 1998, Uganda became the first country to reach the completion point under the HIPC Initiative, as performance under its ESAF- and IDA-supported programs remained strong, and Uganda's other creditors pledged satisfactory assurances of action. Uganda would receive assistance equivalent to approximately $350 million in net present value terms. This amount would reduce Uganda's ratio of net present value of debt to exports to 196 percent, well within the 192–212 percent target range agreed at the decision point; the saving in nominal debt service would be nearly $650 million. The IMF's assistance would lower the present value of its claims on Uganda by $69 million; this would cover 22 percent of Uganda's annual debt service to the IMF on average over the next nine years.

In addition, during 1997/98, five countries reached the decision point: Burkina Faso (in September 1997), Bolivia (in September 1997), Guyana (in December 1997), Côte d'Ivoire (in March 1998), and Mozambique (in April 1998). The assistance committed to these five countries at the decision point totaled about $2.6 billion in net present value terms, which was estimated to reduce debt service in nominal terms by some $5.0 billion. The five countries were scheduled to reach their completion points under the Initiative at various dates between September 1998 and March 2001 (see Table 8).

In March and April 1998, the Boards of the IMF and IDA discussed preliminary HIPC documents for Mali and Guinea-Bissau and indicated that the countries were approaching their decision points and could qualify for assistance under the Initiative. Based on the guidance of the Boards, final HIPC documents were expected to be presented to the Boards after consultation with other creditors.

ESAF Resources for Commercial Debt- and Debt-Service-Reduction Operations

In June and July 1997, the Board discussed the use of ESAF resources for commercial debt- and debt-service-reduction operations for members qualifying for assistance under the ESAF. Most Directors agreed to the use of ESAF resources in the few cases where resources available under the IDA Debt-Reduction Facility and from donors and the member might not be sufficient to finance the up-front costs of such operations, and for which the use of the IMF's General Resources Account would be inappropriate.

Such use of ESAF resources would be guided by the same general principles of the existing policy for supporting debt- and debt-service-reduction operations, including, among other things, conditionality, the efficient use of IMF resources, and market-based operations. In addition, the use of ESAF resources would complement the highly concessional resources available from IDA and other sources and be provided only in the context of appropriately ambitious ESAF-supported programs.

To ensure that the use of ESAF resources for debt- and debt-service-reduction operations would be strictly limited, consideration was given to restricting such

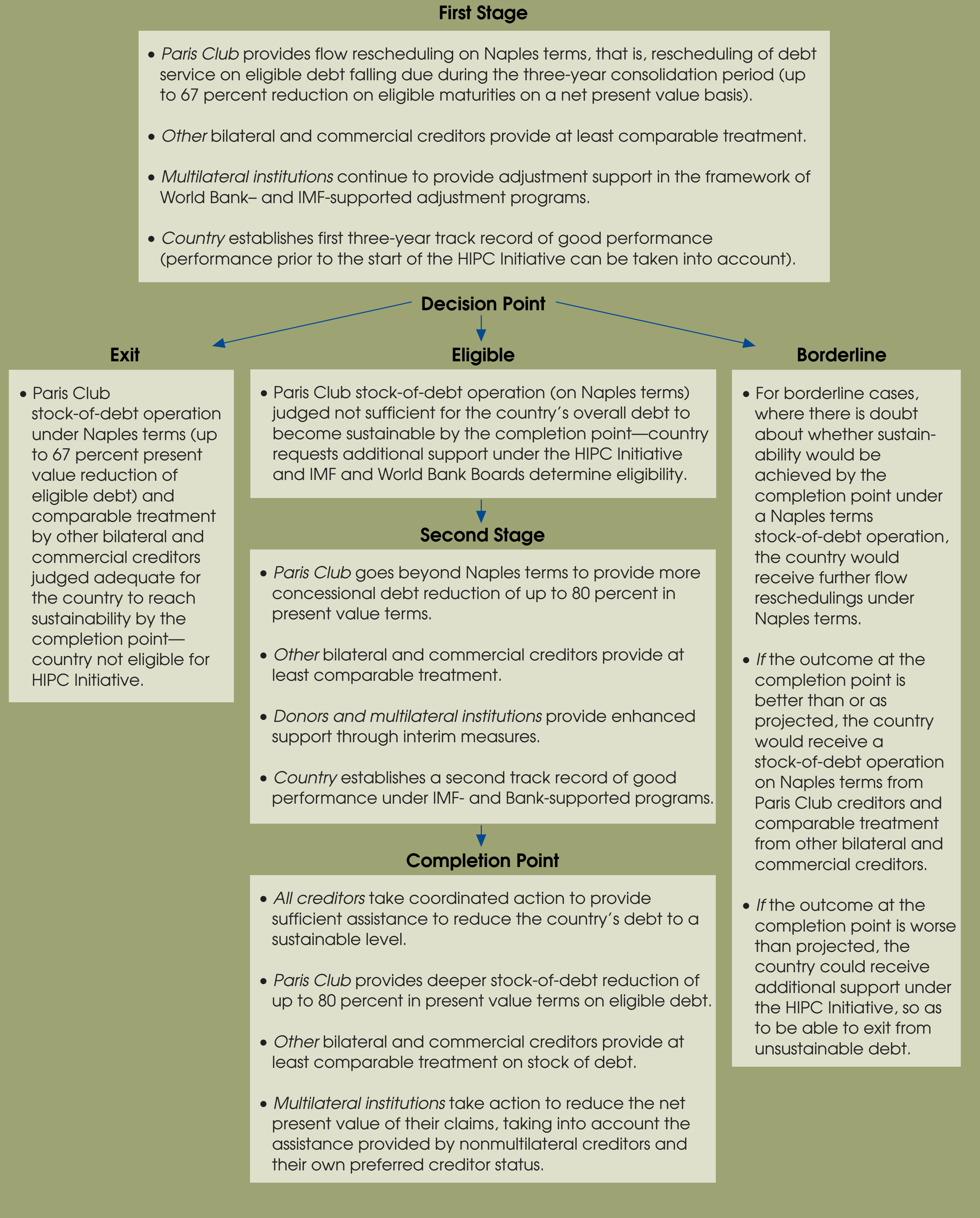


Figure 4
Initiative for Heavily Indebted Poor Countries
First Stage
• *Paris Club* provides flow rescheduling on Naples terms, that is, rescheduling of debt service on eligible debt falling due during the three-year consolidation period (up to 67 percent reduction on eligible maturities on a net present value basis).
• *Other* bilateral and commercial creditors provide at least comparable treatment.
• *Multilateral institutions* continue to provide adjustment support in the framework of World Bank– and IMF-supported adjustment programs.
• *Country* establishes first three-year track record of good performance (performance prior to the start of the HIPC Initiative can be taken into account).
Decision Point
Exit
• Paris Club stock-of-debt operation under Naples terms (up to 67 percent present value reduction of eligible debt) and comparable treatment by other bilateral and commercial creditors judged adequate for the country to reach sustainability by the completion point—country not eligible for HIPC Initiative.
Eligible
• Paris Club stock-of-debt operation (on Naples terms) judged not sufficient for the country's overall debt to become sustainable by the completion point—country requests additional support under the HIPC Initiative and IMF and World Bank Boards determine eligibility.
Second Stage
• *Paris Club* goes beyond Naples terms to provide more concessional debt reduction of up to 80 percent in present value terms.
• *Other* bilateral and commercial creditors provide at least comparable treatment.
• *Donors and multilateral institutions* provide enhanced support through interim measures.
• *Country* establishes a second track record of good performance under IMF- and Bank-supported programs.
Completion Point
• *All creditors* take coordinated action to provide sufficient assistance to reduce the country's debt to a sustainable level.
• *Paris Club* provides deeper stock-of-debt reduction of up to 80 percent in present value terms on eligible debt.
• *Other* bilateral and commercial creditors provide at least comparable treatment on stock of debt.
• *Multilateral institutions* take action to reduce the net present value of their claims, taking into account the assistance provided by nonmultilateral creditors and their own preferred creditor status.
Borderline
• For borderline cases, where there is doubt about whether sustainability would be achieved by the completion point under a Naples terms stock-of-debt operation, the country would receive further flow reschedulings under Naples terms.
• *If* the outcome at the completion point is better than or as projected, the country would receive a stock-of-debt operation on Naples terms from Paris Club creditors and comparable treatment from other bilateral and commercial creditors.
• *If* the outcome at the completion point is worse than projected, the country could receive additional support under the HIPC Initiative, so as to be able to exit from unsustainable debt.

Table 8

HIPC Initiative: Status of Early Cases[1]

Country (in order of expected decision point within groups)	Decision Point	Completion Point	NPV-of-Debt-to-Export Target (in percent)	Assistance at Completion Point (millions of U.S. dollars, present value at completion point)					Percentage Reduction in NPV of Debt[2]	Estimated Total Nominal Debt-Service Relief (millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
				Total	Bilateral	Multilateral	IMF	World Bank			
Completion point reached											
Uganda	April 97	April 98	202	347	73	274	69	160	20	650	Received
Decision point reached and assistance committed by IMF and World Bank											
Burkina Faso	Sept. 97	April 2000	205	115	21	94	10	44	14	200	Being sought
Bolivia	Sept. 97	Sept. 98	225	448	157	291	29	54	13	600	Being sought
Guyana	Dec. 97	Dec. 98	107[3]	253	91	161	35	27	25	500	Being sought
Côte d'Ivoire	March 98	March 2001	141[3]	345	163	182	23	91	6[4]	800	Being sought
Mozambique	April 98	June 99	200	1,442	877	565	105	324	57	2,900	Being sought
Total assistance provided or committed	. . .	. . .	. . .	2,950	1,382	1,567	271[5]	700	. . .	5,650	. . .
Preliminary HIPC document issued; targets based on majority view in preliminary discussions at World Bank and IMF Boards; assistance based on preliminary HIPC documents and subject to change											
Mali	Mid-98	Dec. 99	200	196	63	133	20	65	. . .	. . .	. . .
Guinea-Bissau	98:QIII	Mid-2001	200	300	148	153	8	73	. . .	. . .	. . .
Debt judged sustainable											
Benin	July 97	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Senegal	April 98	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .

Sources: IMF and World Bank Board decisions, completion point documents, final HIPC documents, preliminary HIPC documents, and staff calculations.

[1]Other countries that could reach the decision point within the coming year include Chad, Guinea, Mauritania, Senegal, Togo, and possibly Ethiopia and Vietnam. Not all would be expected to require assistance under the HIPC Initiative.

[2]In percent of net present value (NPV) of debt at completion point, after full use of traditional debt-relief mechanisms.

[3]Eligible under fiscal/openness criteria; NPV-of-debt-to-export target chosen to meet NPV-of-debt-to-revenue target of 280 percent.

[4]Nonreschedulable debt to non–Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.

[5]Equivalent to SDR 200 million.

assistance to countries that had qualified for assistance under the HIPC Initiative. Several Directors expressed concern about the possible resource implications of the proposal, as the financing of the interim ESAF and IMF participation in the HIPC Initiative had not yet been secured. It was noted, however, that the use of ESAF resources for debt- and debt-service-reduction operations would be decided by the Board in each individual case. In addition, the overall use of ESAF resources for these operations would be subject to Board review if the aggregate resource use for that purpose appeared likely to exceed a predetermined level. Directors expressed the view that ESAF financing for debt- and debt-service-reduction operations should be used in a subsidiary, or "last resort," role, only if other financing options were not available. And there should be no strict rules on burden sharing; each case should be subject to discussion, considering both the prospects for bilateral contributions and the use of the country's own resources.

In dealing with the possibility that a debt- and debt-service-reduction operation might materialize at a time that was not well synchronized with the disbursement of ESAF resources, most Directors favored the option of incorporating into the ESAF Trust Instrument a provision for a special disbursement for the sole purpose of financing part of such an operation. This provision was expected to be used only when the disbursement for that operation could not be part of a normal semiannual disbursement.

Review of Experience Under ESAF-Supported Arrangements

In July 1997, the Board discussed a staff study assessing the experience of 36 countries that had availed themselves of SAF and ESAF financing in support of 68 multiyear programs during 1986–95.[13] This internal review was complemented by an external evaluation that was discussed by the Board in March 1998 (see below).

Internal Evaluation of the ESAF

Directors, in their review of the internal evaluation (see Box 11), agreed that most countries that had undertaken reform and adjustment programs with the support of the SAF and ESAF now had economies that were materially stronger and more market oriented than a decade earlier. Fiscal imbalances had been reduced, and macroeconomic policies had eliminated almost all instances of very high inflation. Liberalization and structural reforms had taken hold and, in some instances, had gathered momentum in recent years. Furthermore, economic growth and living standards had improved, with progress toward external viability in many countries.

At the same time, progress had been uneven, and most countries continued to perform below their potential—in many cases despite multiple ESAF-supported programs. Per capita GDP growth in many ESAF countries remained below the average in developing countries, indicators of openness remained relatively weak, and inflation had not been brought down to acceptable levels on a sustained basis in a number of countries. Moreover, debt-service burdens remained unmanageably high in several countries.

Directors noted that this disappointing performance largely reflected shortcomings in a number of policy areas, both macroeconomic and structural. A widespread failure to move ahead decisively with civil service reform and reduce the direct and indirect burdens of public enterprises on the state budget had contributed to missed fiscal targets . Hesitant reforms to the administration of tax systems and countries' banking systems had failed to address fundamental operational weaknesses. Significant barriers to international economic integration had also remained, while the development of the private sector had been held back by problems of poor governance, excessive regulation, and ill-defined or inadequately enforced property rights. Several Directors emphasized the importance of developing institutional capacity while recognizing the difficulties that this entailed. Future ESAF-supported programs should tackle persistent weaknesses in these crucial areas, Directors concluded.

Box 11
Strengthening ESAF-Supported Programs

The main recommendations of the internal review of ESAF for the design of future programs called for:

- stronger and reoriented fiscal adjustment based on durable cuts in budget outlays, particularly from civil service reform and reduced support for public enterprises, while protecting growth-enhancing expenditures on health and education;
- more resolve in reducing inflation to single-digit levels through the use of monetary or exchange rate anchors where appropriate;
- a more concerted effort to adopt so-called second-generation reforms, especially enhanced trade liberalization, public enterprise reform, bank restructuring, and strengthened property rights; and
- steps to reduce policy slippage and encourage more sustained policy implementation, including through more intensive program monitoring in selected cases, greater use of contingency planning in program design, and more proactive technical assistance to build institutional capacity.

[13]Published as IMF, *The ESAF at Ten Years: Economic Adjustment and Reform in Low-Income Countries,* IMF Occasional Paper 156 (1997).

Policies and Program Design. Directors considered that the mutually reinforcing ESAF objectives of growth and external viability called for ambitious strategies, consistently implemented, but tailored to the situation and implementation capacity of countries, and set over a realistic time frame. Better-coordinated and more effective collaboration with the World Bank would also be important, and Directors asked management and staff to propose concrete suggestions to that end. Most Directors emphasized that bolder strategies, with more decisive fiscal adjustment at their core, were needed to achieve a significant increase in national savings. Fiscal reforms should be durable, based on a realistic appraisal of the country's institutional capacities, and founded on systemic changes to the structure of revenues and expenditures and on policies to strengthen budgetary institutions. Reforms should be sought in the structure and administration of tax systems—including greater reliance on consumption-based taxes and reductions in trade taxes—with a view to raising revenues and putting taxes on a permanently sounder and more rational basis.

Noting that rapid population growth and lack of investment in human capital had contributed to holding back per capita income growth in ESAF countries, Directors agreed that high-priority social expenditures—such as on health and education—should be protected, in both the planning and the execution of state budgets. Many felt that programs should make greater use of core budgets to insulate these expenditures against possible revenue shortfalls. Social safety nets should continue to be integrated in ESAF-supported programs to protect vulnerable groups that might be adversely affected by reforms. Furthermore, countries needed to improve the transparency of the fiscal accounts, in particular to reflect extrabudgetary operations. Although Directors also emphasized that major improvements needed to be sought in the data required to assess the adequacy and efficiency of social spending, they saw that as primarily within the World Bank's field of expertise.

Directors expressed concern about the persistence of inflation at double-digit rates in many countries—often despite adherence to program targets for credit expansion and the budget deficit—as evidence suggested a close, positive association between low inflation and economic growth. Noting that the restraint of domestic credit growth was typically not adequate to achieve the desired inflation targets, Directors underscored the need for careful, case-by-case analysis of the root cause of persistent inflation and suggested that future programs attach more weight to policies aimed at bringing about a lasting reduction in inflation to single-digit levels within the period of a three-year arrangement. Although several Directors supported greater use of nominal anchors in the form of an exchange rate peg, money supply ceilings, or announced inflation targets, most felt that those should be used cautiously and selected on a case-by-case basis.

Directors endorsed the importance, in ESAF-supported programs, of structural measures to stimulate private investment and entrepreneurship. Such measures included further liberalization of foreign trade and investment, public enterprise reform, the creation of a sound banking system, and legislation to strengthen property rights. Directors felt that the responsibility for helping countries formulate policies in most of these areas should continue to fall primarily to the World Bank. Particular attention was given to the problem of weak financial discipline in the public enterprise sector and the generally poor record of improvement in this area under ESAF-supported programs. Some Directors argued that this problem was unlikely to be addressed satisfactorily without privatization, and they encouraged a further shift in that direction in future programs. It was agreed that greater efforts were needed to enforce budget constraints on those enterprises that remained in the public sector, which would be possible only with adequate information on their financial position. It was noted that the persistent financial problems in the public enterprise sector had continued to impair banks' portfolios, adding to the difficulties and expense of bank-restructuring programs. More complete information on the financial status of countries' banking systems and the likely fiscal costs of restructuring was needed at the outset of programs—not only to facilitate reform, but also to help safeguard IMF resources, particularly where the solvency of a country's financial system was a concern. To promote more comprehensive implementation of banking system reform, Directors also proposed that conditionality in ESAF-supported programs should focus to a greater extent on sound operational practices, drawing on the Basle Committee's *Core Principles for Effective Supervision.*

Sustaining Programs. The high frequency with which ESAF-supported programs had been interrupted because of policy weaknesses was seen by Directors as a cause for concern. A more active and coordinated approach to providing technical assistance could help if supported fully by the national authorities. Given the vulnerability of ESAF countries to external shocks, many Directors supported more consistent contingency planning and allowing more intensive program monitoring where it would aid policy implementation. They noted that the frequency of IMF staff missions and program reviews, the number of resident representatives, and total staff resources per country had all been low in ESAF countries relative to countries making use of Stand-By and Extended Arrangements; yet these countries typically had weaker administrative and institutional capacities. Many Directors favored phasing

Box 12
Key Findings of External Evaluators of the ESAF

In reviewing the ESAF, the external evaluators offered the following recommendations:

Social Impact

- The IMF should seek ex ante assessments by the World Bank of the likely impact that ESAF-supported programs would have on the incomes of the poor and of the real projected value of social service provision. These impact assessments could be taken into account at the program design stage and should be updated during program implementation.
- In program design, the IMF should explicitly analyze trade-offs between the short run and long run. The analysis would address sequencing issues, front-loading of structural reforms, and the efficiency costs of revenue measures.
- In the area of fiscal policy, IMF–World Bank collaboration should be increased to allow for more joint analysis and to address overlaps concerning the macroeconomic concerns of the IMF and the microeconomic concerns of the Bank.
- The ESAF should have a new role in the poststabilization environment to help reforming governments build reputations and to enable the IMF to play a role in potential ESAF countries that currently reject the facility.

External Viability

- ESAF financing should be provided as budget support, rather than to central banks.
- Equal or more weight should be given to indicators that relate total debt and debt service to GDP rather than to the traditional export-based indicators, as the latter are overly sensitive to an economy's openness.

Ownership and Governance

- Countries have primary responsibility for economic reform programs and should develop and build a consensus behind a program capable of achieving sustainable growth. The IMF should make the negotiation process and conditionality regime more supportive of country ownership.
- Specifically, the IMF should ensure greater flexibility in the negotiating frameworks (e.g., formulate alternative program paths through negotiation, leaving it to the country to decide, with IMF staff advice, what best suits its circumstances); develop systematic mechanisms for ex post support for country-initiated programs; strengthen resident representative missions in ESAF countries; engage in regular informal policy dialogue with the country's political leadership; and find ways to improve the IMF's image.
- Countries should create economic management teams comprising representatives of economic and social sector ministries and political leaders to oversee the reform process and hold national conferences where alternatives and trade-offs can be openly debated.

disbursements and program monitoring along the lines of Extended Arrangements, with quarterly performance criteria and half-yearly reviews in selected cases. Directors asked the staff to offer concrete proposals for stronger monitoring.

Most Directors agreed that more focused technical assistance, contingency planning, and program monitoring, although constructive and worthwhile, were unlikely by themselves to reduce significantly the incidence of program interruptions. The record suggested that many discontinuities or weaknesses in policy implementation were related to political factors. In view of such difficulties, and taking into account administrative limitations, some Directors felt that programs needed to anticipate a slower pace of reform and adjustment than in the past. Many Directors, however, felt that more selectivity was needed in approving arrangements. They favored greater use of prior actions by member countries and indicators of commitment by governments to forge a political consensus for change and aggressively pursue the objectives of the program.

External Evaluation of the ESAF

In the spring of 1997, a panel of outside experts began work on an independent evaluation of SAF/ESAF-supported programs.[14] This was the first time that an external evaluation of aspects of the IMF's work had been commissioned by the Executive Board. The panel—Dr. Kwesi Botchwey, Harvard Institute for International Development and former Finance Minister of Ghana; Professor Paul Collier, Oxford University; Professor Jan Willem Gunning, Free University, Amsterdam; and Professor Koichi Hamada, Yale University—completed its study in January 1998. On the basis of the terms of reference for the study adopted by the Executive Board, the evaluators used a case-study approach to examine social policies and the composition of government spending; developments in countries' external positions; and the determinants and influence of differing degrees of national ownership of ESAF-supported programs. The Board discussed the external evaluation (Box 12) in March 1998.

Directors saw a high degree of complementarity between the report of the external evaluators and the IMF staff review. All supported the fundamental view underlying the evaluators' findings that the ESAF was a valuable instrument to assist low-income countries and

[14]Published as IMF, *External Evaluation of the ESAF* (1998), and available on the IMF's website (http://www.imf.org).

that the IMF's work with this instrument could be improved. Directors agreed with many of the views expressed by the external evaluators and noted that the report provided an opportunity to broaden the debate by offering a different perspective and to promote a better understanding of the IMF's work.

Implications for Social Policy. Directors agreed with the external evaluators that economic reforms, while "generally having positive effects on growth and income distribution," did entail temporary costs for certain segments of the population. This called for appropriate compensatory measures to be built into the design of the program to protect such groups, including the provision of well-targeted assistance to the more vulnerable groups and the allocation of adequate resources for social sectors. In addition, the sequencing of fiscal and other structural reforms should be further analyzed to minimize any adverse social impact. These actions would help policymakers to build a domestic consensus in favor of important but difficult reform measures.

The IMF was already making important efforts to advise countries to protect low-income groups from the impact of adjustment measures and to safeguard social expenditures during fiscal consolidation, Directors observed. They welcomed the proposals by the evaluators to draw more extensively on the expertise and data of the World Bank for a more refined ex ante assessment of the likely impact of adjustment measures on low-income groups. They also agreed that it would be desirable to review the effects of the adjustment measures on those groups on an ongoing basis as part of the regular ESAF program reviews.

Fiscal Issues and External Viability. Transparency and clarity of the breakdown of the deficits were essential, and Directors were generally satisfied with staff presentations on fiscal positions. Directors agreed that short-term revenue objectives should be pursued with sensitivity to the important longer-term implications of the tax system for economic efficiency.

An assessment of progress toward external viability required a broad range of indicators, and Directors continued to favor traditional export-based indicators. On other external aspects, Directors did not share the view of the evaluators that the ESAF constituted an inadvertent tax on exports since most ESAF funds were disbursed to central banks. They endorsed the staff view that the macroeconomic effects of ESAF disbursements did not depend on the initial recipient of ESAF resources.

National Ownership. Directors noted with concern the evaluators' assessment—which they saw as a key contribution of the report—that a common perception at the country level was "a feeling of loss of control over the policy content and the pace of implementation of reform programs." They agreed it was, first and foremost, the obligation of national governments to ensure transparency in policymaking and to promote wide public debate of policy issues. They therefore recommended that governments seriously consider the suggestions of the evaluators concerning the organization of national conferences and regular meetings with academic, business, and labor groups to allow open debate on trade-offs and policy options and to broaden public support. Economic management teams were seen as important for overseeing the reform efforts.

Directors agreed with the evaluators that the IMF staff should consider the political constraints faced by the national authorities. IMF staff, however, should not be put in a position of having to judge what was and was not politically feasible. Directors noted that some of the recommended measures to ensure ownership might prolong the initial stages of negotiations but considered that the investment would be compensated for over the period of implementation. Directors also recognized the importance of striking the right balance between ownership and securing a strong program. Unless a government was committed to pursuing the program objectives, the program would have little chance of success and would thus not merit ESAF support. In this connection, Directors agreed that the IMF should be more cautious in providing ESAF support where the authorities' commitment was in question.

Flexibility in IMF Programs. On the point of perceived inflexibility by IMF staff, many Directors felt that the evaluators might have inadvertently conveyed an inconsistent message. While criticizing perceived inflexibility, the evaluators noted that "the failure to frontload structural reforms with long gestational lags may well be the most serious defect of structural adjustment as currently designed." Often this failure reflected the IMF's willingness to accommodate government resistance to specific reforms.

Finding the proper balance between negotiating flexibility and supporting only programs that adequately addressed economic problems was indeed a delicate matter. These trade-offs and the sequencing of reform issues would continue to be at the center of future Board discussions of ESAF programs. On sequencing reform measures, Directors agreed with the staff that member countries often needed to take advantage of windows of opportunity, without being overly constrained by strict sequencing considerations. Directors also felt that, in several cases, what appeared to be sequencing problems were in reality problems of lack of implementation of agreed policy measures.

Better Public Understanding. Improved public understanding of the IMF in countries receiving ESAF support was important, including through public explanations of the purpose and benefits of economic reform programs by the governments. The steps being taken to increase resident representatives' external relations

activities and to enhance collaboration with national authorities and civil society conformed with the evaluators' views.

Continued IMF Presence. Directors agreed that there were many cases in which the IMF must stay engaged in ESAF-eligible countries after the initial macroeconomic stabilization had been achieved. As the evaluators had suggested, Directors saw a window of opportunity in several African economies that had stabilized and were now approaching high rates of growth as a result of policy reform. Investment rates in these economies, however, remained far too low for these growth rates to continue over the longer term, and significant external capital had to be attracted to supplement only slowly rising domestic saving rates. To attract external savings from public and private sources in an environment perceived by markets to be risky, an IMF signal of policy adequacy was often essential to help reduce uncertainty.

With regard to the scope for ESAF financing in the poststabilization phase, several Directors emphasized that the ESAF was not a long-term aid transfer mechanism, as the evaluators seemed to imply. Therefore, disbursements of ESAF support could not be provided over the long term, particularly for programs that aimed at little, if any, further reform. Directors expressed interest in more extensive use, in the poststabilization phase, of precautionary arrangements with the IMF, under which members agreed to an IMF arrangement but without intending to draw on IMF resources. This could have the advantage of conferring the IMF's stamp of approval on a country's reform efforts, to catalyze financial support from other sources. Directors also saw the need for a greater role for the World Bank and other donors in supporting the reform efforts of ESAF countries in the poststabilization period.

The evaluators recommended that the IMF develop more systematic mechanisms for providing continuing support in situations where stabilization had been achieved but where agreement between the government and the IMF was delayed, or, for mainly political reasons, the government was unable to agree on a conventional IMF arrangement. The evaluators favored a move from negotiation to certification. But many Directors were concerned that IMF support for such programs might not be workable. In particular, the absence of ex ante agreement on a framework for policies might mean that any ex post judgment and disbursement of ESAF resources would pose difficulties, as the IMF must avoid arbitrary judgments and unequal treatment of member countries.

Directors took note of the evaluators' suggestion that World Bank and IMF cooperation could be improved in some country cases and recognized the importance of seeking ways to strengthen this collaboration; these issues had also surfaced in the internal evaluation of the ESAF and on other occasions. Some Directors felt that it might not be useful to establish further formal rules on coordination, recommending that priority be given to promoting an open and free flow of information between the IMF and the Bank.

On March 13, 1998, following soon after the Board's consideration of the report, the IMF released the study and other documentation to the public at a press conference at IMF headquarters. Three of the four external evaluators, as well as the chairman of the Evaluation Group of IMF Executive Directors, participated in the briefing.

In its April 1998 meeting, the Interim Committee expressed its appreciation for the work of the external evaluators of the ESAF. It also welcomed the intention of the Board to draw operational conclusions from the issues raised by both the internal and external evaluations so as to strengthen the IMF's ability to foster sustained growth and external viability in poor countries.

Capital Movements Under an Amendment of the IMF's Articles

During 1997/98, the Executive Board met to discuss various aspects of an amendment to the IMF's Articles of Agreement with respect to liberalization of capital movements and the IMF's role, including the methodology and scope of jurisdiction; the treatment of inward direct investment, transitional arrangements, and approval policies; and the legal aspects of capital movements, including considerations regarding financing and conditionality. In their discussions, Directors emphasized that, given the scope and complexity of the issues involved, their views remained preliminary and without prejudice to their final positions.

At the Annual Meetings in Hong Kong SAR in September 1997, the Interim Committee issued a Statement on the Liberalization of Capital Movements Under an Amendment of the IMF's Articles of Agreement (Box 13). The statement invited the Board to complete its work on a proposed amendment of the IMF's Articles to make the liberalization of capital movements one of the purposes of the IMF and extend, as needed, the IMF's jurisdiction through the establishment of carefully defined and uniformly applied obligations regarding the liberalization of such movements.

Seminar on Capital Account Liberalization

To help inform its work on bringing the liberalization of capital movements within its mandate, the IMF hosted a seminar on the subject in March 1998 to elicit views from a wide range of private and official observers outside the IMF. Participants included senior government officials, private sector representatives, academicians, and representatives from international organizations. IMF senior staff, management, and members of the Executive Board also participated.

Seminar participants generally agreed that the Asian financial crisis confirmed the importance of orderly and properly sequenced liberalization of capital movements, the need for appropriate macroeconomic and exchange rate policies, and the critical role of a sound financial sector. Participants broadly recognized that, in the current globalized environment, the trend toward greater liberalization was here to stay. The real issues were how, when, and under what circumstances capital flows should be liberalized. A number of speakers noted that weakness in the financial sector lay at the heart of the crises in Indonesia, Korea, and Thailand. The main problems were the limited capacity of financial institutions to assess and manage risks, inadequate prudential supervision, and ad hoc liberalization of capital movements. With respect to the latter, it was noted that it was not liberalization per se, but its form and sequence that rendered countries vulnerable to changes in market sentiment. A number of speakers felt that the Asian crisis demonstrated that liberalization should be approached cautiously in concert with progress in other areas to realize fully the benefits of liberalization. Participants acknowledged that the IMF had a central role to play in promoting the orderly liberalization of capital movements, but views differed as to whether IMF "advocacy" of freer capital markets or "jurisdiction" over its members' capital flows was the more appropriate means for the IMF to achieve this goal.

Is Liberalization Necessary?

The trend toward capital account convertibility is "irreversible," IMF Managing Director Michel Camdessus said at a luncheon address on March 9, and "all countries have an important stake in seeing that the process takes place in an orderly way," no matter where they stood on the opening of their own capital accounts. The benefits of open capital markets were well known, but free-flowing capital could be highly disruptive, as several speakers noted, creating financial crises that threatened the stability of the international monetary system. Certainly, massive capital flows were a major element behind the financial crisis in Asia. If the trend toward open capital movements was irreversible, and if the benefits from free access to capital markets were undeniable, how, then, could the costs and risks be minimized? Seminar participants noted the importance of an orderly and properly sequenced approach to liberalization of capital movements. In this context, they discussed the role the IMF could play in encouraging the orderly liberalization of capital movements, includ-

Box 13

Interim Committee Statement on Liberalization of Capital Movements Under an Amendment of the IMF's Articles, as Adopted, Hong Kong SAR, September 21, 1997

1. It is time to add a new chapter to the Bretton Woods agreement. Private capital flows have become much more important to the international monetary system, and an increasingly open and liberal system has proved to be highly beneficial to the world economy. By facilitating the flow of savings to their most productive uses, capital movements increase investment, growth, and prosperity. Provided it is introduced in an orderly manner, and backed both by adequate national policies and a solid multilateral system for surveillance and financial support, the liberalization of capital flows is an essential element of an efficient international monetary system in this age of globalization. The IMF's central role in the international monetary system, and its near universal membership, make it uniquely placed to help this process. The Committee sees the IMF's proposed new mandate as bold in its vision, but requiring cautious implementation.
2. International capital flows are highly sensitive to, among other things, the stability of the international monetary system, the quality of macroeconomic policies, and the soundness of domestic financial systems. The recent turmoil in financial markets has demonstrated again the importance of underpinning liberalization with a broad range of structural measures, especially in the monetary and financial sector, and within the framework of a solid mix of macroeconomic and exchange rate policies. Particular importance will need to be attached to establishing an environment conducive to the efficient use of capital and to building sound financial systems solid enough to cope with fluctuations in capital flows. This phased but comprehensive approach will tailor capital account liberalization to the circumstances of individual countries, thereby maximizing the chances of success, not only for each country but also for the international monetary system.
3. These efforts should lead to the establishment of a multilateral and nondiscriminatory system to promote the liberalization of capital movements. The IMF will have the task of assisting in the establishment of such a system and stands ready to support members' efforts in this regard. Its role is also key to the adoption of policies that would facilitate properly sequenced liberalization and reduce the likelihood of financial and balance of payments crises.
4. In light of the foregoing, the Committee invites the Executive Board to complete its work on a proposed amendment of the Fund's Articles that would make the liberalization of capital movements one of the purposes of the Fund and extend, as needed, the Fund's jurisdiction through the establishment of carefully defined and uniformly applied obligations regarding the liberalization of such movements. Safeguards and transitional arrangements are necessary for the success of this major endeavor. Flexible approval policies will have to be adopted. In both the preparation of an amendment to the IMF's Articles and its implementation, the members' obligations under other international agreements will be respected. In pursuing this work, the Committee expects the IMF and other institutions to cooperate closely.
5. Sound liberalization and expanded access to capital markets should reduce the frequency of recourse to Fund resources and other exceptional financing. Nevertheless, the Committee recognizes that, in some circumstances, there could be a large need for financing from the Fund and other sources. The Fund will continue to play a critical role in helping to mobilize financial support for members' adjustment programs. In such endeavors, the Fund will continue its central catalytic role while limiting moral hazard.
6. In view of the importance of moving decisively toward this new worldwide regime of liberalized capital movements, and welcoming the very broad consensus of the membership on these basic guidelines, the Committee invites the Executive Board to give high priority to the completion of the required amendment of the Fund's Articles of Agreement.

ing a possible amendment of the Articles of Agreement to extend IMF jurisdiction to include capital movements.

Preconditions

Although it was not possible to say with any certainty how long a country should hold off opening its capital account, there was consensus, according to IMF First Deputy Managing Director Stanley Fischer, that "liberalization without a necessary set of preconditions in place may be extremely risky." The absence of such preconditions could promote a crisis or reveal weaknesses in the financial system that could have been overcome had the authorities been allowed more time to strengthen the system before the capital markets were opened.

Participants generally recognized that the Asian financial crisis had not negated the contribution that substantial inflows of capital had made to economic progress in the Asian countries before the crisis erupted. The crisis demonstrated the risks of liberalization that is not properly sequenced and adequately supported by sound policies on a wide range of other fronts. Some speakers noted, however, that appropriate sequencing should not mean that liberalization should, or could, wait for other reforms to be completed.

Rather, both should proceed hand in hand to take advantage of windows of political opportunity. Most speakers stressed the importance of making progress in:

- achieving sound and consistent macroeconomic policies, sustainable current account positions, and appropriate exchange rate regimes;
- having sound and well-supervised domestic financial systems, including improved supervision and prudential regulations covering capital adequacy, lending standards, asset valuation, effective loan recovery mechanisms, and provisions ensuring that insolvent institutions were dealt with promptly;
- improving transparency through disclosure of accurate financial and economic information, based on internationally recognized standards and practices; and
- liberalizing financial services to allow for greater competition and the transfer of skills, capital, and best practices.

Path to Liberalization Should Be Orderly

The Asian experience demonstrated the need for adapting the pace of liberalization to the circumstances of individual countries in order to limit their vulnerability to wide fluctuations in capital movements. A number of seminar speakers advocated a gradual opening of the capital account, noting that for many developing countries the costs of disruption occasioned by reversals in capital flows were high, given their limited capacity to absorb risk and the absence of institutional structures to deal with such reversals.

Several speakers considered it important to avoid ad hoc liberalization that might create a bias toward short-term inflows. They suggested that in the initial stages, the emphasis should be on liberalizing medium- and long-term investments. For emerging market economies, the improper management of the opening of financial markets could easily lead to a boom-and-bust cycle during the transition period.

Speakers noted that the experience of countries—not just in Asia—demonstrated that appropriate regulatory requirements and controls could help discourage volatile short-term capital inflows. A number of speakers argued that appropriate prudential measures, aimed particularly at limiting banks' external exposures, were necessary. A fairly wide cross-section of participants—from developed and developing countries and representing both the public and private sectors—saw scope for introducing controls on short-term inflows in some circumstances, even for well-managed economies; to be effective, they concluded, any such controls should be market based, transparent, and temporary. At the same time, a number of speakers were wary of controls, noting that, like tariffs, they were generally undesirable. Such controls could easily become permanent and a way of avoiding necessary policy adjustment.

Institutionalizing Liberalization

All seminar participants agreed that, given its mandate to oversee the international monetary system, the IMF had an important role to play in promoting the orderly liberalization of capital movements and was better placed than other international organizations to do so. Differing views were expressed, however, about whether the IMF could best achieve that goal through advocacy or jurisdiction.

A few speakers argued that an amendment to extend jurisdiction to capital movements was not necessary to achieve the goal of capital market liberalization. In their view, the IMF was already promoting capital account convertibility in the context of surveillance, conditionality, and technical assistance. Although an amendment of Article I to make the liberalization of capital movements a purpose of the IMF could be useful, further amending the Articles to extend IMF jurisdiction to cover both payments and transfers and the underlying transactions would not provide an effective mechanism for promoting liberalization. Furthermore, these participants contended, it would involve the IMF in activities beyond its designated responsibilities in the balance of payments area and could raise difficulties of overlap and potential conflict with other international treaties.

Those favoring extending IMF jurisdiction to capital movements held that the IMF was the ideal agency to undertake this function, because it could deal with each country on a case-by-case basis, adjusting the progress toward full liberalization to the country's individual capacity and complementary structural reforms. Although the IMF had encouraged countries with IMF-supported adjustment programs to free up their capital accounts, legal jurisdiction would allow the IMF to apply the principles of capital liberalization to all member countries through its surveillance activities, not just those using its financial resources. Furthermore, as an organization that promoted good governance among its members, the IMF had to set an example by ensuring that the legal basis for its activities was transparent. Such transparency would also clarify, rather than undermine, the IMF's relationship with other organizations. Speakers from other international organizations, such as the World Trade Organization, the Organization for Economic Cooperation and Development, and the European Union, noted the complementarity of the IMF's role in this area with that of their own organizations and considered that a well-defined code of conduct for capital movements would help clarify the respective roles of the IMF and other international institutions.

Some speakers cautioned that without commitment, advocacy carried little conviction. A country's resolution to open its capital account and its agreement not to impose restrictions at a later date would not be credible without the commitment, transparency, and con-

viction imparted by its obligations as a member of the IMF to proceed toward an open capital account. Nevertheless, the seminar discussion highlighted that, given the undefined and open-ended transition period, obligations themselves would imply no more conviction than advocacy.

Some private sector representatives pressed for greater transparency in the IMF's deliberations on an amendment. In particular, they would like to see specific language on the proposed amendment before lending their support to an amendment.

Future Considerations

In summing up the seminar, First Deputy Managing Director Stanley Fischer cited several issues yet to be resolved. Despite considerable enthusiasm for an amendment of the IMF's Articles—from both official sources and the private sector—he noted that some "severe doubts" had been expressed, both on whether capital account liberalization per se was a good idea and on whether advocacy was not sufficient and legalized jurisdiction too painful, complicated, and unnecessary.

A pressing unresolved issue, Fischer said, was how the international system could ensure that banking supervisory standards and the quality of banking systems were improved and what could be done at the international level. Also unresolved was how to determine when an economy was sufficiently insulated by preconditions to risk opening the capital account. Fischer noted that some seminar participants had expressed the fear that too much talking about preconditions might discourage countries that would end up waiting forever for preconditions to be in place. On the other hand, some participants suggested that change did not happen until it was forced. Such a way of proceeding was "pretty risky," said Fischer, since the consequences of potential accidents were very large.

The consequences of uncontrolled short-term flows posed another set of problems. Aside from their dislocating effect on the economy, short-term flows could do serious damage to a vulnerable banking system. There was no established body of analysis on capital controls—what worked and what did not—and a "host of questions" had to be examined. A capital account amendment of the IMF's Articles, Fischer said, would provide an appropriate context in which to conduct such an analysis.

Finally, other international organizations and institutions were closely associated with both the regulation and liberalization of capital movements. It was clear, Fischer said, that if the IMF's Articles were amended to include jurisdiction over capital movements, the existing close cooperation between the IMF and these organizations would have to be strengthened further.

Next Steps

At an April 1998 discussion following the seminar, the Executive Board agreed that the IMF and its members faced a world vastly different from that of the 1940s, when the IMF's Articles—with their emphasis on the liberalization, and financing, of current account transactions—were conceived. The benefits for the world economy of an open and liberal system of capital movements were now widely recognized. Balance of payments difficulties associated with the capital account, although stemming from underlying policy issues, also dominated many of the problems the IMF was dealing with now, which would no doubt be even more the case in the future. Directors thus saw a tension between the focus of the existing Articles and the realities faced by the IMF that had to be addressed.

The increasing openness and integration of capital markets was being driven to a large extent by markets themselves and by the advantages that members saw in liberalization. This phenomenon should not be reversed. One lesson of the Asian financial crisis, Directors agreed, was that it was necessary to achieve a better pace and sequencing of liberalization with other reforms, most notably in the domestic financial sector, and for countries to adopt appropriate macroeconomic and exchange rate policies. Given the IMF's mandate and its universal membership, Directors saw the institution as uniquely placed to foster prudent, well-considered, and orderly liberalization worldwide. It could do this while respecting the interests and roles of other organizations active in this area.

In reporting to the Interim Committee in April 1998, the Managing Director noted that Executive Directors had reaffirmed that the orderly liberalization of capital movements should be one of the IMF's purposes and had reached provisional agreement on the text of an amendment that would express that purpose in general terms. Directors would continue work on other aspects, including policy issues, jurisdiction, and financing.

Subsequently, at its April 1998 meeting, the Interim Committee reaffirmed its view, expressed in its Hong Kong communiqué of September 1997, that it was time to add a new chapter to the Bretton Woods agreement by making the liberalization of capital movements one of the IMF's purposes and extending, as needed, the IMF's jurisdiction for this purpose. The Committee noted the progress made to date and the provisional agreement reached by the Executive Board on that part of an amendment dealing with the IMF's purposes. It asked the Board to pursue with determination its work on other aspects, including policy issues, with the aim of submitting an appropriate amendment of the Articles for the Committee's consideration as soon as possible.

Technical Assistance and Training

Member countries' demand for IMF technical assistance and training remained strong in 1997/98. Technical assistance continued to focus on the monetary and fiscal aspects of macroeconomic management, but also addressed statistics, financial law, IMF financial organization and operations, and information technology (Figure 5). A large number of departments in the IMF provided assistance, and the Technical Assistance Committee—composed of senior staff from each of the IMF's functional, area, and support departments—advised IMF management on priorities and policies and coordinated assistance activities among IMF departments. In the field, assistance was delivered by IMF staff and the assignment of short- and long-term advisors.

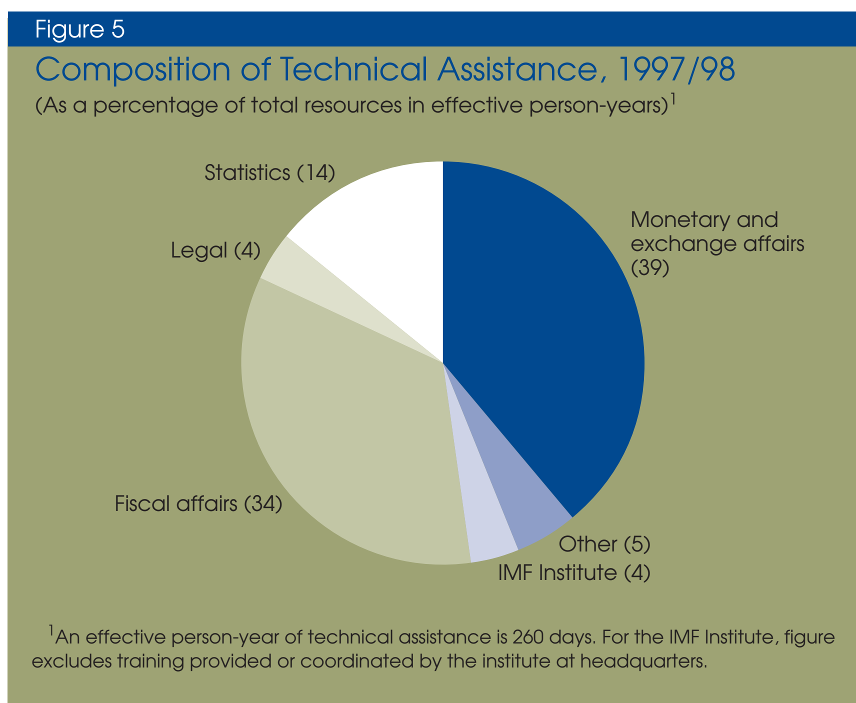
At headquarters and abroad, training courses and seminars on a variety of topics were given by the IMF Institute and other departments providing technical assistance and training. In 1997/98, the Institute's program at headquarters included basic, intermediate, and advanced courses on financial programming and policies, shorter courses on such specialized topics as exchange rate policies and monetary and inflation targeting, and a high-level seminar on trade reform and regional integration in Africa. In addition, other functional departments—including Fiscal Affairs, Monetary and Exchange Affairs, Policy Development and Review, and Statistics—conducted seminars and courses in their areas of expertise in collaboration with the Institute. The Institute's overseas training program continued to focus on issues related to the formulation and implementation of economic adjustment programs.

Technical assistance has been described as forming the third leg of the IMF stool—the other two legs

Figure 5

Composition of Technical Assistance, 1997/98

(As a percentage of total resources in effective person-years)[1]



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

being its surveillance work and its financial assistance under IMF-supported adjustment programs. Member countries and the IMF have become increasingly convinced that the timely provision of effective technical assistance is a key ingredient in supporting governments' efforts to sustain policy and institutional reform. In 1997/98, technical assistance activity represented about 17 percent of total IMF administrative expenditures.

The increased attention being placed on the promotion of better governance and on creating or maintaining conditions for sustainable and equitable growth have highlighted the need for more attention to strengthening governments' human resource and institutional capacities for effective economic management. Without such improvements, the IMF's surveillance and program financing activities would likely have a less durable impact. The IMF's technical assistance and training are specifically aimed at strengthening economic management capacity so that, in the long run, members will have less need for IMF financing and a greater ability to engage in a productive dialogue with the IMF during surveillance operations. This can be described as the *preventive* aspect of IMF technical assistance and training. Given available resources, much of the IMF's technical assistance was inevitably *remedial* in nature—directed toward immediate problem solving or helping governments implement economic and financial reforms within the context of an IMF-supported program.

Table 9
Technical Assistance Delivery
(Effective person-years)[1]

	1994/95	1995/96	1996/97	1997/98[2]
Fund technical assistance resources	**220.0**	**211.4**	**172.7**	**189.6**
Staff	115.7	108.6	97.1	103.9
Headquarters-based consultants	22.1	23.5	20.1	20.8
Experts	82.3	79.3	55.5	64.9
External technical assistance resources	**80.5**	**97.5**	**104.2**	**96.2**
United Nations Development Programme	16.6	25.0	21.5	24.4
Japan	51.4	65.0	67.3	55.6
Other	12.4	7.5	15.4	16.2
Total technical assistance resources	**300.6**	**309.0**	**277.0**	**285.7**
Total resources by department				
Monetary and Exchange Affairs Department	138.1	137.3	114.6	110.6
Fiscal Affairs Department	95.1	99.8	96.2	98.8
Statistics Department	37.9	39.2	36.6	39.0
IMF Institute	14.6	14.0	11.0	12.1
Legal Department	7.9	11.0	9.3	10.3
Other[3]	7.0	7.7	9.3	14.9
Total regional use by department	**271.1**	**280.1**	**251.0**	**258.7**
African Department	60.6	62.4	54.5	65.8
Asia and Pacific Department[4]	n.a.	n.a.	49.0	42.5
Central Asia Department	27.7	27.5	n.a.	n.a.
Southeast Asia and Pacific Department	23.6	25.0	n.a.	n.a.
European I Department	27.8	24.4	22.5	23.8
European II Department	79.3	73.5	57.6	52.6
Middle Eastern Department	16.9	23.4	26.5	29.5
Western Hemisphere Department	27.4	32.3	31.2	35.2
Interregional	7.9	11.7	9.6	8.6
Nonregional use	**29.6**	**28.9**	**26.1**	**26.9**
Total technical assistance use	**300.6**	**309.0**	**277.0**	**285.6**

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

The IMF quantifies the technical assistance it delivers in units of "person-years of services provided," both by its staff as well as by the experts it recruits. Using this measurement, the annual volume of IMF technical assistance in the past few years has been about 300 person-years (see Table 9). The cost in U.S. dollar terms per unit of input increased over the period owing to increases in compensation for outside experts and greater use of short-term experts.

The regional distribution of IMF technical assistance and training has shifted markedly since 1995, when the countries of the two IMF European Departments absorbed 40 percent of technical assistance resources. This proportion dropped back to 30 percent in 1997/98, while the share of countries in the African and the Middle Eastern Departments, taken together, rose to 37 percent from 28 percent over the same period.

One of the features of IMF technical assistance and training over the past few years has been its involvement in postconflict countries. In such situations the traditional "request-and-response" mode of operation has been considered inadequate to address the urgent need to rehabilitate these countries' basic economic

Box 14
IMF Institute and Regional Institutions

Europe. The IMF, in collaboration with the World Bank and certain other international institutions, has established the Joint Vienna Institute (JVI) to provide training to officials of former centrally planned economies that are in transition to market-based systems. In addition to a comprehensive course in applied market economics jointly presented by all sponsoring organizations, the IMF Institute and other IMF departments offer an extensive seminar program covering macroeconomic analysis and policy, banking supervision, payment systems, monetary and exchange operations, fiscal policy, public expenditure management, value-added taxes, social safety nets, financial sector law, and macroeconomic statistics. Recently the Board extended the IMF's support for the JVI for another five years.

Capacity building in Africa. The Institute has a long-standing cooperative relationship with the regional training institutions in Francophone Africa, namely, the training centers of the Central Bank of West African States (West African Training Center for Banking Studies—COFEB) and the Bank of Central African States. The Institute offers a yearly regional course on Financial Programming and Policies or External Sector Policies, as well as periodic lecturing assistance to the centers. The regional courses benefit from cofinancing from the United Nations Development Programme and the European Union. In collaborating with these centers, the Institute continues to place emphasis on "capacity building" by training trainers, both in financial macroeconomics and in managerial fields linked to teaching.

To respond to the growing need for training in Africa, the Institute helped establish in 1997 the nine-member Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) in Zimbabwe and the West African Institute for Financial and Economic Management (WAIFEM) in Nigeria.

Asia. Effective May 4, 1998, the IMF-Singapore Regional Training Institute (STI) commenced the offering of training on policy-related economics to selected government officials, mainly from developing countries in the Asia and the Pacific region. In 1998/99, 13 courses and seminars are scheduled on macroeconomic adjustment and reform policies, financial programming, the problems of transition economies, monetary and exchange operations, public finance, banking supervision, and macroeconomic statistics. The STI is viewed as a precursor to similar regional training centers in other parts of the world.

South-East Asian Central Banks Research and Training Center (SEACEN). Relations between the IMF Institute and SEACEN (Kuala Lumpur, Malaysia) developed in the 1970s when the Institute began to send senior staff to assist SEACEN in the formulation of its training program. Since the early 1980s, the Institute has also provided lecturing assistance to SEACEN and coordinated lecturing assistance from other IMF departments, and in the early 1990s began to conduct joint courses.

The Arab Monetary Fund. The IMF Institute has maintained a close relationship with the training branch of the Arab Monetary Fund (AMF), the Economic Policy Institute (EPI), since its inception in 1988. Since then, it has regularly provided the EPI with lecturing assistance in connection with the AMF course on Macroeconomic Management and also participated in the AMF course on External Sector Management, first offered in March 1995. Cooperation between the IMF Institute and the AMF includes joint courses and seminars and participation by Institute staff in AMF-sponsored seminars.

In addition, the Institute has been providing lecturing assistance for courses organized by the Center for Latin American Monetary Studies for several years; has been cooperating with the Islamic Development Bank on regional training courses since 1994; and conducted its first cooperative training venture with the Asian Development Bank in 1995.

and financial management capacities. This has given rise to the practice of preparing large-scale, integrated, multiyear technical assistance programs cofinanced with other donors. Such technical assistance programs have now been implemented—or are being implemented—in such postconflict countries as Angola, Cambodia, Haiti, Lebanon, Namibia, Rwanda, and Yemen; plans are under way for a similar approach for Liberia. These programs are usually closely coordinated with, and cofinanced by, the United Nations Development Programme (UNDP) and often involve a number of bilateral donors. In addition, where appropriate, the IMF is developing a regional approach to the delivery of technical assistance and training services. Examples include the Pacific Financial Technical Assistance Centre in Fiji, which channels technical assistance to 15 countries in the Pacific area with financing from UNDP, Australia, New Zealand, the Pacific Forum, and the Asian Development Bank; the Joint Vienna Institute; the Harare Center; the Cairo Information Center; and the IMF-Singapore Regional Training Institute, which is cofinanced by the IMF and the Government of Singapore (see Box 14).

Japan was the single largest source of external financing for IMF-provided technical assistance and responded with great flexibility during 1997/98 in seeking to ensure that its funding was readily available to help address the new demands for technical assistance that arose from the Asian crisis. The Framework Administered Account for Technical Assistance Activities—established by the IMF in 1995—attracted contributions from Australia, France, Japan (for a scholarship program), and Switzerland. A few countries, such as Sweden and Norway, financed UNDP

projects for which the IMF was the executing agency. Others, such as the United Kingdom, the European Union, and the Inter-American Development Bank, agreed to coordinate technical assistance cofinancing arrangements with the IMF. Several developing country members used the proceeds from World Bank credits to finance IMF-provided technical assistance. In 1996/97, 30 percent of the IMF's total technical assistance and training activities were financed from external sources, and two-thirds of the experts that it recruited to serve in its member countries were also externally financed. This ratio of internal to external financing is likely to remain fairly stable in the immediate future.

During 1997/98, joint evaluations of country technical assistance projects were conducted with the UNDP in China, Haiti, the Pacific, and Yemen. The IMF's Office of Internal Audit and Inspection is currently evaluating the IMF's technical assistance and training operations.