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In this issue

Program review

IMF Executive Board approves $8 billion augmentation of Stand-By credit for Turkey

The IMF's Executive Board on May 15 approved an augmentation of Turkey's three-year Stand-By Arrangement by SDR 6.4 billion (about $8 billion), bringing the total to SDR 15 billion (about $19 billion). The full text of Press Release 01/23, including details of Turkey's economic program, is available on the IMF's website (www.imf.org).

The Board's decision, made in conjunction with the completion of the sixth and seventh reviews of its economic program, will enable Turkey to draw up to SDR 3 billion ($3.8 billion) immediately. Further drawings of SDR 1.2 billion (about $1.5 billion) each will be made available not earlier than June 25 and July 25, and of SDR 2.4 billion (about $3 billion) each not earlier than September 20 and November 15 following the completion *(Please turn to the following page)*

Turkish Economy Minister Kemal Dervis conferred with IMF Managing Director Horst Köhler during the International Monetary and Financial Committee meeting in April.

Address to Council of the Americas

Köhler stresses need for national commitment and international support for Americas

Following are edited excerpts of an address given by IMF Managing Director Horst Köhler to the Council of the Americas on May 7 in Washington. The full text is available on the IMF's website (www.imf.org).

On balance, I assess the situation in Latin America and the Caribbean as being fundamentally better today than it was 10 or 20 years ago. Countries throughout the region have clearly embraced democracy, open markets, and macroeconomic stability.

It is clear that Latin America and the Caribbean still face difficult challenges. In particular, too many people still live in poverty. Steps to strengthen governance and fight corruption have often lagged behind other reforms, undermining credibility and investor confidence. And because many countries are major borrowers in international capital markets, they are particularly vulnerable to volatility in the markets. A strategy to meet these challenges is to promote transparency, competitiveness, and sound democratic institutions. Because the people in this region—as in the rest of the world—strive for a better future, this will pay off in more investment, stronger economic growth, and better social development. This will also pave the way for better access to capital markets. In this regard, efforts to strengthen the soundness of banking sectors have already put many Latin American economies in a better position to withstand external shocks.

IMF and crisis prevention

Recent developments in international financial markets have clearly demonstrated that the IMF needs to work even harder to put crisis prevention at the heart of all its activities. Highest on our agenda for the coming months will be further work on early warning of potential crises. For this, we need to combine quantitative indicators of vulnerability with judgment from the field and from the *(Please turn to the following page)*

IMF augments support for Turkey

(Continued from front page) of further reviews of the program.

Following the Board discussion, IMF First Deputy Managing Director Stanley Fischer said:

"The IMF welcomes the strengthened program prepared by the new economic team in Turkey. Full implementation of this program should restore macroeconomic stability and address the structural root causes of the country's problems, thereby laying the foundations for the resumption of growth.

"The Turkish program aims at strengthening confidence, addressing the costs arising from the crisis by increasing the primary fiscal surplus, speeding up the reform of the banking sector, and undertaking wide-ranging structural reforms. Decisive implementation of the program's policies, together with the availability of significant additional external support, should initiate a virtuous cycle characterized by lower interest rates, stronger public finances, and a recovery of economic activity.

"The IMF commends the depth and breadth of the new economic program. The emphasis on banking reform is appropriate, especially given the structural weaknesses in this area that were seen during the recent crises. The elimination of public sector banks' large overnight exposure, their full recapitalization, and the overhaul of their governance structure will go a long way to strengthen the financial sector. In addition, measures to privatize key companies and reform major domestic markets, including the telecommunications, electricity, natural gas, tobacco, and sugar markets, and to enhance governance and improve transparency, are essential elements of the program.

"The program's macroeconomic policies are strong, in particular the major fiscal effort that the Turkish authorities are undertaking to reestablish fiscal solvency. On monetary policy, the adoption of the new central bank law will give the central bank operational independence in the pursuit of price stability. In the short term and before a full-fledged inflation targeting framework is put in place, monetary policy will focus on the control of monetary aggregates in the context of a floating exchange rate framework.

"The IMF is demonstrating its backing for this ambitious program by providing exceptional financing in its support. Its success will take both determined implementation by the authorities and sustained support by the private sector," Fischer said. ■

Our objective should not be to have more and bigger rescue package but to reduce the frequency and severity of crises.
—Horst Köhler

Köhler addresses Council of Americas

(Continued from front page) markets. This should involve cooperation with the private sector. To ensure the maximum beneficial impact, it will be important for this work to move forward with the full participation of the IMF's membership and with due care that our warnings about potential crises do not become self-fulfilling prophecies.

As part of this effort, the IMF also needs to do a better job of keeping up with developments in international capital markets. The new International Capital Markets Department will help the IMF deepen its understanding of, and judgment on, capital market issues. Our informal but regular dialogue with senior representatives of private financial institutions, through the Capital Markets Consultative Group (CMCG), will further strengthen our work on crisis prevention and resolution.

The philosophy behind the IMF's Contingency Credit Lines (CCL) is that good policies are still the best precaution that our members can take against crises. This IMF lending facility is designed to reward countries that have established a strong track record of good policies in normal times and help them resist contagion. Mexico could be one of the first countries to make use of the CCL.

No matter how much effort goes into crisis prevention, we must recognize that economic disruptions and crises cannot be ruled out in an open and dynamic global economy. Therefore, our objective should not be to have more and bigger rescue packages, but to reduce the frequency and severity of crises.

But I also want to emphasize that the IMF's track record in crisis management has not been all that bad. In this region, for instance, the IMF played an important part in Chile's successful transition from economic and institutional disaster to democracy and sustained growth. More recently, the IMF's contribution was crucial in enabling Mexico and Brazil to overcome their crises and resume strong economic growth. Since then Mexico has repaid all of its borrowings from the IMF, and Brazil almost all, and both are sticking to good policies.

I am also confident that Argentina and Turkey will weather the storm. Both of them have taken strong ownership of measures to address their problems, and both have chosen a market-oriented approach. These efforts deserve strong support. And let me make clear that the IMF stands ready to help any member country that is willing to adopt the right policies.

Promoting growth, reducing poverty

Because private flows are an indispensable source of financing for development, another crucial function of the IMF's new Capital Markets Department will be to strengthen our ability to help countries gain access to international capital markets.

Only by getting access to investment capital from the rest of the world will the IMF's poorest member countries be able to make a real breakthrough in poverty reduction. The IMF should therefore be ambitious in assisting them in this process. This is one of the reasons why the IMF must stay engaged with poor countries. At the same time, it is clear that the IMF must remain focused on its mandate—promoting sound macroeconomic policies and domestic and international financial stability as preconditions for sustained growth.

Bolivia, Guyana, Honduras, and Nicaragua are benefiting from debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. But the most important thing we can do to help fight poverty is to empower poor countries to help themselves. Crucial for this is increased access to markets in the industrial countries, in particular for products that matter the most to the HIPCs, such as agricultural products, textiles, and other manufactured goods. Here, no industrial country is free from sin.

Fischer announces he will resign as First Deputy Managing Director of IMF

Stanley Fischer, First Deputy Managing Director of the IMF, announced on May 8 that he would be leaving his position later in 2001, as soon as a smooth transition to his successor had been arranged (IMF Press Release No. 01/22, May 8).

In a statement announcing his decision, Fischer said, "I will leave the IMF with the highest respect for this institution and the deepest regard and affection for its dedicated and outstanding staff." He expressed his gratitude to the two Managing Directors with whom he has served, Michel Camdessus and Horst Köhler, and to the member country authorities with whom he has worked closely. Köhler paid tribute to Fischer as "an extraordinary economist and public servant," adding that he had benefited from Fischer's advice and support, as well as from his integrity and humanity, during his first year in the IMF.

Fischer, 57, took up his position in 1994 for an initial five-year term. He was appointed to a second five-year term in 1999. He was previously the Killian Professor and head of the Department of Economics at the Massachusetts Institute of Technology. From 1988 to 1990, he served as Vice President for Development Economics and Chief Economist at the World Bank.

Fischer served at the IMF during one of the most active and eventful periods of its history. The IMF responded to the Mexican crisis of 1994–95, the Asian crisis of 1997–98, the continuing problems that affected the Russian economy, the Brazilian crisis of 1998–99, and, most recently, the crises in Argentina and Turkey, during his tenure.

Press conference

Discussing the events of the past seven years at a May 8 press conference, Fischer said that he regards the revolution in IMF transparency as the most important development in that period. He added, "We published essentially nothing in 1994, and we publish almost everything now. We talk to you [the press] far more than we ever did. We talk to the public in member countries far more than we ever did, and that is wholly to the good."

Fischer said there were many achievements of which an IMF official might feel proud. These included the success of the Brazilian program in 1999, the design over a single weekend of a new monetary system for Bosnia-Herzegovina, and the measures taken to prevent hyperinflation in Bulgaria.

"The IMF, by and large, is called on to operate in very, very difficult circumstances," he said, adding, "I think the record speaks for itself that the Asian countries that followed the agreed programs with the IMF were the ones that succeeded and that came back most rapidly." Asked whether in the future the IMF would play a greater role in the developing countries, Fischer replied that "the process that was invented for the HIPCs [heavily indebted poor countries], the very close integration between the work of the [World] Bank and the IMF… is a very good way of doing business. It means that we do the macroeconomics in programs where the structural components are handled by the Bank."

He expressed his hope that the ongoing work to change the structure of the international system and to clarify the role of the exchange rate in crises would mean that his successor would deal with fewer crises. Also significant is "the work we're doing on strengthening of financial systems and improved debt management," he said.

As for his plans for the future, Fischer said that, while he would step down as First Deputy Managing Director once his successor came on board, he would remain in the IMF for a few months to work on some papers and possibly a book. (The complete transcript of Fischer's press conference is available on the IMF website: www.imf.org.)

Staff Association statement

In a statement, the IMF Staff Association Committee expressed its highest regard for Fischer's integrity, honesty, and impartiality toward member countries and the IMF staff. Noting that his "dedication to his work is legendary," the statement said Fischer would "leave the IMF a stronger place than he found it…. He has raised our intellectual standards and strengthened our sense of mission. During the last year, he has directed his energies to supporting the Managing Director's vision for the IMF of promoting international financial stability by concentrating on our core areas of expertise, a vision that is already beginning to show results and that the staff heartily endorses."

We published essentially nothing in 1994, and we publish almost everything now.

—Stanley Fischer

The expansion of international trade has been one of the channels through which globalization has contributed to unprecedented world prosperity in our lifetimes. Other channels have included technological innovation—especially in transportation, communications, and medicine—rising standards of education, the spread of democracy and free markets, and the growth of international capital markets. Of course, each of these phenomena poses both opportunities and risks. Indeed, 10 years after the end of the Cold War, a plethora of new challenges is confronting us, and there is a vigorous debate about the advantages and disadvantages of globalization. In my view, the opportunities clearly outweigh the risks. And I would much rather face these challenges than the problems of the Cold War.

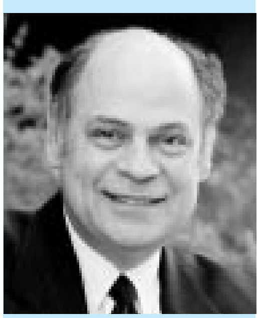
The Americas are well placed to lead by example and to demonstrate how to secure a good future for all people of the world. The IMF looks forward to supporting them in this effort. ■

IMF Institute seminar

Regional gathering focuses on challenges of extending benefits of globalization in Africa

Mohamed Daouas

Abbas Mirakhor



Saleh M. Nsouli

Although there are now signs of progress in an increasing number of African countries, determined efforts are needed to accelerate the region's integration into the world economy, promote rapid economic growth, and substantially reduce poverty. To review Africa's current situation and challenges in an increasingly interconnected world economy, the IMF Institute organized, in the context of its program of activities with the Joint Africa Institute (JAI), a high-level seminar on globalization and Africa, which was held in Tunis on April 5–6. The seminar, cohosted by the Central Bank of Tunisia, brought together ministers, central bank governors, and other officials from 14 African countries (including 3 North African countries), representatives of a number of regional organizations, IMF Executive Directors representing African countries, and senior IMF staff.

Issues and challenges

In an opening session, chaired by Michel A. Dessart, Director of the JAI, the basic issues and challenges were laid out by the Governor of the Central Bank of Tunisia, Mohamed Daouas; IMF Executive Director Abbas Mirakhor; and IMF Institute Deputy Director Saleh M. Nsouli. Governor Daouas remarked that globalization is a "multidimensional reality" that offers great economic and other benefits but also entails many risks. The challenge was to make globalization a process of full integration, rather than one of exclusion, among nations. Recognizing that most African countries needed to catch up with other developing countries in terms of economic growth and living standards, he called for the implementation of improved policies and reforms, especially with a view to boosting private investment and human resource development. Daouas emphasized that Tunisia pursued such policies and reforms with considerable success and remained committed to a strategy of openness to the global economy. Mirakhor welcomed Tunisia's economic and social progress, and expressed confidence in Africa's ability to meet the challenges of globalization. Looking ahead, he underscored a number of critical issues facing developing countries, including the need to increase their influence in international forums. For his part, Nsouli highlighted the importance of more concerted efforts by developing countries and the international community to make globalization work better for the benefit of all the peoples of the world.

The challenges of globalization were set out in a broader framework in a paper presented by Nsouli on behalf of Michael Mussa, Economic Counsellor and Director of the IMF's Research Department. In that paper, Mussa noted that, in general, globalization has been associated with rising real living standards, but it has never been and is not likely to become an entirely benign phenomenon. Empirical research has shown that relatively open policies toward international trade are generally associated with stronger rates of economic growth. At the same time, a series of financial crises, he explained, have provided significant reason for concern about the instability of international capital flows, especially short-term credit flows to emerging market economies. But Mussa argued that appropriate measures are available to reduce the risk and lessen the damage of such capital flow instabilities (especially through responsible government debt management and prudent regulation and supervision of financial institutions), without countries' resorting to draconian efforts to resist the increasing integration of international capital markets.

Explaining Africa's experience

Focusing on the issues of globalization in Africa, S. Ibi Ajayi, Professor of Economics at the University of Ibadan, explained that African countries had lagged behind other developing countries for various reasons, including adverse external conditions, heavy dependence on primary products, macroeconomic policy errors, lack of financial depth, deficient infrastructure facilities, and ethnic and tribal divisions. For all these reasons, Africa has been unable to reap the benefits of globalization. However, Ajayi indicated that globalization alone could not solve all of Africa's problems. African countries must grow much faster to reduce poverty and, hence, need to create a stable macroeconomic environment, reliable institutions, and good and responsible government structures.

Policies and reform

Evangelos A. Calamitsis, former Director of the IMF's African Department, joined Ajayi in calling for a strengthening of the policy environment in sub-Saharan Africa to improve the region's competitiveness, accelerate its integration into the global economy, promote rapid economic growth, and make a real dent in poverty. To reach the International Development Goals for 2015, especially the goal of reducing extreme poverty by one-half, African countries have to raise their real GDP growth to 7–8 percent a year on a sustained basis; they also have to significantly improve social conditions, including addressing the HIV/AIDS pandemic. Although each African country will have to formulate a development strategy that best suits its circumstances and the will of its people, Calamitsis suggested that most countries would probably need to implement policies and reforms designed to consolidate macroeconomic stability, enhance human resource development, improve basic infrastructure and spur agricultural development, accelerate trade liberalization and reinforce economic integration, promote a sound banking system, foster private investment, and ensure good governance in all its aspects.

In the area of trade reform, many African countries have made considerable progress since the early 1990s. Nevertheless, in general, the trade regimes of African countries are still more complex and restrictive than those of other regions. Robert L. Sharer, Assistant Director in the IMF's African Department, argued that further trade liberalization is essential but, to be successful, it should be coupled with market-oriented domestic policy reforms. He added that regional integration could improve economic efficiency and increase market size; however, it could not substitute for the liberalization of trade regimes vis-à-vis major trading partners, which should continue to be an important element of sound reform programs.

To facilitate Africa's full integration into the global economy, Seyni Ndiaye, Senegal's National Director of the Central Bank of West African States, emphasized that most countries would also have to undertake far-reaching institutional reforms. Notably, they should limit the role of the state to delivering essential public services; promote a dynamic private sector within a liberal and transparent regulatory framework; and strengthen the role of civil society, which could contribute importantly in fighting poverty and protecting the environment. Ndiaye further stressed the need to improve the human condition through education and health care and expressed the hope that African countries could count on external technical assistance, particularly in the use of the latest information and communication technologies.

Mauritius

The seminar covered a number of specific cases, which served as a reminder that African countries can indeed be successful in joining the global economy and substantially reducing poverty. In presenting one such case, Arvind Subramanian, Division Chief in the IMF's African Department, noted that Mauritius has made remarkable economic and social progress since the early 1970s. Although Mauritius has defied in some respects the "Washington consensus" through heavy intervention and targeting in trade, including by creating export processing zones, its overall experience attests to the importance of stable macroeconomic policies, neutrality of incentives between tradable and nontradable sectors, and an efficient services sector. More decisive perhaps, according to Subramanian, is the role of the country's institutional development. He argued that domestic considerations, such as the extent of democracy, the quality of public institutions, and the inclusiveness and transparency of participatory processes, may well hold the clue to Mauritius's favorable economic performance compared with most African countries.

Tunisia and a Mediterranean strategy

Abdellatif Saddem, Tunisia's Minister of Economic Development, explained that Tunisia's own experience highlighted the benefits of sound macroeconomic policies and structural reforms, including closer integration with Europe, Africa, and the Arab world. He added that the association agreement with the European Union, concluded in 1995, is an important component of Tunisia's development strategy, though it now poses new challenges as Tunisia has to adjust to the next stage of trade liberalization and to the European Union's increasing openness to other trading partners. Although interregional cooperation is essential, Saddem stressed that it cannot be a substitute for continued domestic reform efforts.

Paul Chabrier, Director of the IMF's Middle Eastern Department, said Tunisia provided a good example of a "Mediterranean strategy in the context of globalization." But, commenting on the North African region as a whole, he said that, to be successful in boosting private investment and growth, such a strategy should be based on three pillars: liberalizing domestic and foreign trade, as well as the services sectors; conclud-

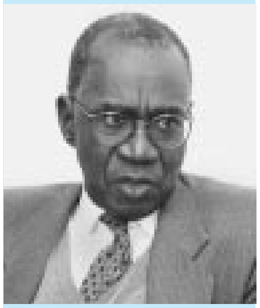

Evangelos A. Calamitsis


Robert L. Sharer


Arvind Subramanian


Paul Chabrier

G.E. Gondwe



Mamoudou Touré

Alexandre Barro Chambrier

ing bilateral association agreements with the European Union as a first step toward multilateral trade liberalization; and coupling association agreements with cooperation arrangements among North African countries.

IMF support of regional integration

Turning to the role of the international community, G.E. Gondwe, Director of the IMF's African Department, emphasized that the IMF was making every effort to help Africa better position itself to take advantage of the benefits of globalization. An important goal is the promotion of efficient regional integration, which featured prominently in the discussions of the Managing Director of the IMF and the President of the World Bank with African heads of state during their joint visit to Africa in February 2001. Gondwe said that the IMF was supporting regional integration by encouraging strengthened national economic stability and performance, increasing the emphasis on regional issues in IMF-supported programs, intensifying regional surveillance efforts with a view to enhancing regional policy coordination and institutional harmonization, and providing technical assistance. The IMF also intends to help promote investment by facilitating the establishment of regional investment councils.

Strengthening financial architecture

On a much broader scale, the IMF and its members have been taking steps to strengthen the international financial architecture, with a view to avoiding or reducing the risks of major disturbances and crises in the world economy. Saleh M. Nsouli and Françoise Le Gall, of the IMF Institute, noted that reform of the international financial architecture was the linchpin for spreading the benefits of globalization more widely. They reviewed progress made on the major building blocks of the new architecture, namely, transparency and accountability; international standards and codes; the strengthening of financial systems; capital account issues; sustainable exchange rate regimes; the detection and monitoring of external vulnerabilities; private sector involvement in forestalling and resolving crises; and IMF facilities and initiatives, including the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Poverty Reduction and Growth Facility. They stressed that the new architecture could help African countries take advantage of the opportunities provided by globalization while minimizing the risks, thus fostering an environment conducive to increased investment and growth. African countries have already made some progress on various elements of the new architecture, but the work agenda remains largely unfinished.

Summing up

In a roundtable discussion chaired by Mamoudou Touré, former Minister of Economy and Finance of Senegal and former Director of the IMF's African Department, speakers exchanged views on the challenges of globalization and the policies and initiatives required to extend its benefits in Africa. There was a consensus that, more than ever before, Africans were keenly aware of the need for strong programs to foster growth and reduce poverty, based on an open, transparent, and participatory approach that ensures national ownership of the requisite policies and measures.

Alexandre Barro Chambrier, IMF Executive Director, summed up the proceedings by emphasizing that sound macroeconomic policies and structural and institutional reforms, coupled with good governance in all its aspects, were required for African countries to successfully reap the benefits of globalization, accelerate growth, and reduce poverty. But, Barro Chambrier added, Africa also needs peace and security. Thus, urgent steps must be taken to prevent conflicts and resolve disputes promptly.

Finally, Barro Chambrier noted that, to be successful, the reform efforts of African countries should be supported more strongly by industrial countries and multilateral institutions. The international community could make a vital contribution to Africa's welfare by maintaining steady noninflationary growth in the world economy and strengthening the international financial architecture; actively supporting efforts to restore peace and security in affected countries; giving poor countries free access to industrial country markets, especially for agricultural products; providing deeper and faster debt relief to all eligible countries under the enhanced HIPC Initiative; and increasing official development assistance. ■

Evangelos A. Calamitsis
Former Director, IMF African Department

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
May 7	3.72	3.72	4.37
May 14	3.65	3.65	4.29

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/cgi-shl/bur.pl?2001).

General information on IMF finances, including rates, may be accessed at www.imf.org/external/fin.htm.

Data: IMF Treasurer's Department

Interview with Steven Phillips

Study examines record of program projections: how clear is the crystal ball?

Forecasts attract a lot of attention, particularly when they go wrong. The IMF's forecasting record has received its share of scrutiny, much of it devoted to forecasts published in the World Economic Outlook. *A new IMF Working Paper, coauthored by Steven Phillips, Senior Economist in the IMF's Western Hemisphere Department, and Alberto Musso, Researcher at the European University Institute (based on work undertaken when both were in the IMF's Policy Development and Review Department), looks instead at the track record of projections made as part of IMF-supported programs. Phillips speaks with Prakash Loungani about their findings.*

LOUNGANI: How did you get interested in seeing whether IMF projections were any good?

PHILLIPS: Around the time of the Asian crisis, there was much comment on the gap between original projections for the programs there and what came to pass. Alberto and I wanted to see what the track record was for recent program projections in general. We studied projections in some 70 IMF-supported programs—both Stand-By and Extended Arrangements.

LOUNGANI: When you look at a forecasting record, what makes you say, "that's a good record"?

PHILLIPS: There are several dimensions to the question, gauged by a standard set of tests. One test looks for a pattern of bias—do the forecasts tend to lean in one direction or the other; are they too optimistic or pessimistic in general? Another test concerns efficiency. If a review of past forecasting shows that errors were not just random but could have been predicted, that suggests it's possible to do better. Those forecasts are not efficient. And the most obvious test, of course, is accuracy: how close was the projection to the outcome, in comparison to alternative forecasts?

We applied these standard forecast evaluation techniques to projections associated with IMF-supported programs, though we recognize that program projections may not be intended to be pure forecasts. A pure forecast would aim, to put it a bit technically, at the unconditional mean of all possible outcomes. But program projections may be the outcome of negotiations with policymakers in the program country, and they may be conditional on assumptions about the policies pursued during the program. Our paper discusses other problems in treating program projections as forecasts—the bottom line is a call for caution in interpreting our findings.

LOUNGANI: Which variables did you use?

PHILLIPS: We went with a handful of variables central to any program: growth, inflation, and three different balance of payments concepts. These influence the projections for many other variables in the program. Projections of tax revenues, for example, feed off the nominal income forecasts—the growth and inflation forecasts.

Phillips: "We recognize that program projections may not be intended to be pure forecasts."

LOUNGANI: How did we do? A Heritage Foundation study claimed our growth forecasts for the *World Economic Outlook* tended to be too optimistic.

PHILLIPS: Well, we didn't find any such bias in the program projections. There wasn't a tendency to be too optimistic or too pessimistic. And we weren't able to predict projection errors; the projections seemed efficient. The growth projections also passed our statistical tests of accuracy.

LOUNGANI: That's surprising; I would have expected a bit of optimism in our growth projections.

PHILLIPS: That seems to be a common perception; maybe more attention is given to cases where growth falls short. We did find optimism in growth forecasts for "big" programs—that is, programs for larger countries or programs in which the IMF money involved was atypically large. These also tended to be programs in emerging markets, countries that had access to foreign private capital. Perhaps, in these cases, the immediate cause of the crisis tended to be a capital account problem.

LOUNGANI: In these countries, was growth dependent on whether capital stayed in? Was the program then predicated on confidence being restored?

PHILLIPS: Our study doesn't get into why some projections go wrong, but, as you suggested, in capital account crises two quite different outcomes may both be plausible. Just splitting the difference might not make sense; you have to pick one scenario or the other. And in some cases, you end up making the wrong choice.

LOUNGANI: Let's move on to inflation.

PHILLIPS: Here, the news wasn't as good: inflation outcomes exceeded projections. Inflation may have fallen, but programs tended to be optimistic about how quickly this would happen. This kind of result has been published before, though maybe our tests were a bit more rigorous. But here again, it proved important to look at subsets of our sample. We found the bias was coming from projections made for countries with unusually high inflation before the program started. We couldn't find significant bias in other programs.

With one exception, we found that program projections were good at predicting which way things would move.
—Phillips

LOUNGANI: The IMF must have done well on external sector projections.

PHILLIPS: Well, for both the current and capital accounts of the balance of payments, we didn't find any bias. But accuracy was weak. These balances may be fundamentally difficult to predict. I should mention that we also looked at the directional accuracy of IMF projections. With one exception, we found that program projections were good at predicting which way things would move. The one exception was capital account projections.

LOUNGANI: Is this because, as we discussed earlier, in capital account crises two quite different outcomes may be plausible, and the scenario you pick may be the wrong one?

PHILLIPS: It's possible. By the way, in practice, program projections are revised or updated quite often, so switching scenarios, if necessary, is always possible. But our study only looked at initial projections—that is, the projections made when the programs were first approved by the IMF's Executive Board.

LOUNGANI: Are you worried critics will seize upon these results and say, "there goes the IMF again, making errors"?

PHILLIPS: We found just what a person would expect—a mixed bag of results—some favorable, some pointing to areas for improvement. If people want to focus only on the latter, they will. And they won't need our results, since the kinds of projections we studied are routinely made public. What would be constructive is if people intrigued by our findings try to build on them and test among competing explanations of why we got the results we did. Really, a useful interpretation of our results requires that.

LOUNGANI: A last word?

PHILLIPS: In the end, what you really want to know is how well IMF-supported programs work. In other words, how do program outcomes compare with what would have happened in the absence of a program or with the implementation of a different program? Of course, we haven't answered that. Our study just compares program outcomes with a set of numbers called projections. Still, I hope that some of the stylized facts we've found may ultimately be useful, at least in providing clues that can be used to fine-tune program design. ■

Copies of IMF Working Paper 01/45, *Comparing Projections and Outcomes of IMF-Supported Programs*, by Alberto Musso and Steven Phillips, are available for $10.00 from IMF Publication Services (see page 180 for ordering details). Working Papers are also posted on the IMF's website (www.imf.org).

Available on the web (www.imf.org)

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01/43: Mauritania: $8 Million under PRGF, May 10

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01/43: IMF Executive Board Discusses Challenge of Maintaining Long-Term External Debt Sustainability of HIPCs, May 4

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IMF Managing Director Horst Köhler, "Promoting Stability and Prosperity in a Globalized World," Council of the Americas, Washington, May 7 (see page 165)

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Press Briefing, IMF First Deputy Managing Director Stanley Fischer, May 8 (see page 167)

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Poverty Reduction Strategy Papers

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World Bank–IMF–Brookings conference

Discussants weigh impact of foreign participation in financial systems of developing countries

Will foreign participation in emerging market financial sectors spur competition and provide greater stability (as advocates suggest) or crush domestic competitors and cut and run during a crisis (as critics argue)? The third annual Financial Markets and Development Conference, sponsored by the World Bank, the IMF, and The Brookings Institution and held in New York City on April 19–21, reviewed current trends and evaluated the experience to date. In so doing, discussants were looking to fashion appropriate advice for developing countries weighing the pros and cons and the how-tos of opening financial sectors to foreign participation. More broadly, participants heralded the extraordinary technological changes revolutionizing financial sectors around the world, but they also cautioned that rapid change has traditionally been coupled with heightened risk. The unknown and the unforeseen can hold unexpected dangers. This only underscores the need, participants stressed, for increased analysis and greater vigilance.

The big picture

For the financial systems of many emerging markets, the 1990s were a period of extraordinary transformation. One of the most notable changes, Donald Mathieson and Jorge Roldos of the IMF explained, was the increasing presence of foreign banks in emerging market financial sectors. Their paper found dramatic rises in foreign participation in Central Europe and Latin America, but a notably smaller increase in Asia.

According to Mathieson and Roldos, foreign bank interest in emerging markets is being driven by technology-induced economies of scale that have fueled intense competition for market share and a growing interest (and comparative advantage) in geographic and product diversification. While only a handful of banks are able to conduct global commercial banking, a number of banks, leveraging language and cultural affinities, have emerged as "regional evolvers." For the emerging markets, a growing openness to foreign trade and investment has spurred a new willingness to reduce barriers to foreign participation in the financial sector, but Mathieson and Roldos noted that it has often been crises and the costs of recapitalizing banks that have triggered foreign entry.

And does a greater foreign presence provide emerging market banking systems with greater efficiency and stability? Mathieson and Roldos found that while foreign banks may not always operate more efficiently than domestic banks in mature economies, they consistently have higher profits and lower operating costs in emerging markets and are associated with lower profit margins and reduced operating costs in domestic banks in these countries. Data are surprisingly scarce, however, on the link between foreign banks and stability, and they draw no firm conclusions on whether foreign banks lend emerging market banking sectors more stability and lessen credit volatility.

One of the biggest questions for policymakers is what position parent banks will take if branches (a legal part of the parent bank) or subsidiaries (separately capitalized entities) run into trouble. Indeed, what happens to local banks if their foreign parent bank has problems of its own? These relationships, Mathieson and Roldos underscored, have yet to be tested in crises.

Foreign participation in the securities industries of emerging markets has been fueled by much of the same mix—technological advances, competition, development objectives, and postcrisis reforms—plus international and regional commitments. Ranjit Ajit Singh, Director of Malaysia's Securities Commission and chair of Working Group 2 of the Emerging Markets Committee of the International Organization of Securities Commissions, reported on a survey of 17 emerging markets. The experience in these countries, he said, highlighted how important it was for countries opening their financial sectors to have a preparatory phase. In expectation of increased competition, countries should deregulate the domestic industry, promote industry consolidation and strategic partnerships, and strengthen institutions. It was also imperative, Singh said, to have a strong and facilitative regulatory framework in place.

In the wake of the February 2000 World Trade Organization conference in Seattle and the financial crises of the late 1990s, the road to a General Agreement on Trade in Services 2000 won't be easy, admitted Pierre Sauvé of the Organization for Economic Cooperation and Development's Trade Directorate. But in a paper coauthored with Karsten Steinfatt of the Trade Unit of the Organization of American States, Sauvé suggested that developing countries have much to gain from this round. He urged them to use this opportunity to lock in ongoing domestic reforms through proper sequencing and precommitting to future liberalization in the financial sector.

On the ground

Taking a closer look at the products and services foreign financial institutions offer in these countries, Michael Pomerleano of the World Bank and George Vojta of the Financial Services Forum found that large multinational banks have the resources to offer the greatest range of products and services, make the

Donald Mathieson

Jorge Roldos

largest investments, manage the most information, and rationalize costs and risks most efficiently. But they will not eliminate the role of domestic banks, which are in a position to make good use of their knowledge of local markets and their relationships. Foreign and domestic banks, they suggested, complement each other's strengths.

Pomerleano and Vojta also observed a dichotomy in foreign bank operations in emerging markets. Citibank, HSBC, and Standard Chartered, for example, have developed strong local franchises that target high-end consumer and commercial operations. Others, such as JPMorgan-Chase and Deutsche Bank, are limiting their credit exposure and are refocusing on investment and private banking activities. But broadly, Pomerleano and Vojta concluded, foreign banks are poised to continue to play a significant role in developing local financial markets, entering into local partnerships to furnish global services, and providing expertise.

Why, asked Edward Graham of the Institute for International Economics, would any country not liberalize fast? The "infant industry" argument holds no water, he said, but there is a real question of "franchise value." To operate properly, banks need to retain a certain value, and to do that, they need to be allowed a certain amount of monopoly rent. Graham suggested a loss of monopoly rights was not a big problem for emerging market banks unless they held a large percentage of nonperforming loans—in that situation, he said, the entry of foreign banks could "annihilate" heavily burdened domestic banks.

For emerging markets, then, there is a real "chicken and egg" question, Graham said. Do you ask foreign banks to help resolve nonperforming loans or do you deal with the nonperforming loans first? What you absolutely don't want to do, he indicated, is postpone liberalization and not deal with nonperforming loans. If a country must postpone liberalization, Graham recommended setting tight and published deadlines for resolving the nonperforming loans. And for the country that proceeds with liberalization, he strongly suggested deregulating the domestic banking industry and significantly improving prudential regulation.

The insurance component of financial sector liberalization tends to get "short shrift," Harold Skipper of Georgia State University noted, but it can play a key role in a country's development. Insurance, he said, can help promote financial stability, substitute for or complement government security programs, facilitate trade and commerce, help mobilize savings, and allow risk to be managed more efficiently.

Skipper saw little likelihood of foreign domination in emerging markets and feared efforts to discourage foreign participation in high-end markets might reduce efficiency gains. Ultimately, Skipper said, the crucial role for the public sector is in ensuring reliability. This could be achieved, he said, by encouraging a competitive and solvent insurance market and by developing a regulatory system that stressed adequacy, impartiality, minimal intrusiveness, and transparency.

Perhaps no segment of the financial sector has been more transformed by technology than the securities market, but Benn Steil of the U.S. Council on Foreign Relations saw little evidence of this transformation in the advice given developing countries hoping to create or expand their securities markets. He urged developing countries to leapfrog the structures and technology of mature markets and embrace the "global efficient frontier in trading technology, exchange governance, investor access, and market structure regulation."

Among other recommendations, Steil counseled developing countries to buy, lease, or pay for access to existing trading and settlement systems rather than build their own; make efficient operating costs the decisive factor in determining whether a local or foreign owner is appropriate; ensure that listing is a competitive business; and actively seek out cost-minimizing combinations of compatible trading and settlement systems.

Opportunities and risks

Revolution is an apt term for the scope and speed of the technological changes taking place in financial sectors, Philip Turner of the Bank for International Settlements said, and given the unpredictable nature and timing of these changes, uncertainty will be a certainty for some time to come. There will be significant implications for banks—notably, increased competition from nonfinancial institutions, substantial changes in the business model, and greater financial sector consolidation—and these and related developments are likely to pose major challenges to regulators.

Turner cautioned that banks' risk-management processes will have to be adapted to e-finance, and prudential oversight will have to identify totally new challenges and find ways to harmonize different concerns and priorities across countries. He identified important new risk issues in four categories: business miscalculation (always greater in periods of profound technological change); operational risk (increasingly complex technology used by employees who do not fully understand it); location of the counterparty (the physical and/or legal location of e-finance firms will be difficult to identify); and systemic risk (common software dramatically increases the impact of accidents or sabotage).

For regulators, there will be critical, but different, issues. Turner indicated that in an "internet-rich" financial system, regulation must be more flexible, stress

Photo credits: Denio Zara, Padraic Hughes, Pedro Márquez, and Michael Spilotro for the IMF.

guidance rather than detailed rules, and rely more on improved disclosure requirements. With even large banks dependent on service providers, these will also have to be properly monitored. And with the internet vulnerable to accidental or malicious disruption, it is essential, he observed, to have effective backup and security systems in place. Given the blurring of lines between types of financial products and with e-banks vulnerable to fast-developing crises, the challenge for authorities will be to establish areas of responsibility and identify where coordination would be beneficial.

In his keynote address, Michael Mussa of the IMF expanded on the theme of opportunities and risks. Financial services, he explained, thrive on information, computation, and communication—all areas in which the e-revolution has transformed the speed, scope, and nature of doing business. Financial services always try to convey a sense of investment without risk, but make no mistake about it, he said, banking depends on leverage and has always been one of the riskiest of businesses.

Since an economy's well-being is intimately tied to the health of its financial sector, there are good reasons, Mussa said, why public sectors intervene when financial sectors run into trouble. But that said, he added, there are unavoidable problems with this intervention. Even if properly disciplined, it can induce excessive risk taking (moral hazard), and the intervention provides only delayed discipline (and intervention without discipline can come at great eventual cost to the economy).

The expansion of financial institutions into new areas is likely to increase risk, Mussa suggested. When you liberalize rules and allow banks to dabble in unfamiliar activities, the results can be disastrous, he said, citing the savings and loan debacle in the United States and similar patterns of expansion and crises in emerging markets. He warned, in particular, of the potential for problems with large multinational financial institutions that have enormous exposures outside their home countries and engage in highly complex transactions. While Mussa said he knew of no imminent dangers, the modalities of dealing with a major crisis in which no home country authority had clear responsibility raised serious concerns. ■

Michael Mussa

Details on the conference, including the program, are available on the World Bank's website at http://www1.worldbank.org/finance/html/about_open_doors.html. The proceedings of the conference, including revised papers and transcripts of panel discussions, will be published in September by The Brookings Institution. Copies of the book, *Open Doors: Foreign Participation in Financial Systems in Developing Countries*, will be priced at $29.95; for more information, call (800) 275-1447 or e-mail bibooks@brook.edu.

Memorial tribute is paid to Sir Alan Whittome

A memorial tribute in honor of Sir Alan Whittome, former director of the IMF's European and Exchange and Trade Relations Departments and Counsellor, was held at the IMF on April 30. Two former Managing Directors, Johannes Witteveen and Jacques de Larosière, sent written tributes, and a third, Michel Camdessus, delivered his remarks in person. Others who spoke were Horst Köhler, the current Managing Director; Andrew Crockett, General Manager of the Bank for International Settlements; Sir Christopher McMahon, former Deputy Governor of the Bank of England; and P.R. Narvekar, former IMF Deputy Managing Director. The speakers were introduced by Benedicte Christensen, Senior Advisor in the IMF Treasurer's Department, and the event was attended by Sir Alan's widow, Duncan, and his two daughters, Candy and Susi Whittome (for details of Sir Alan's career with the IMF, see *IMF Survey*, February 5, page 46).

Andrew Crockett noted the "enormous mark" that Sir Alan's 26 years as a department head had left on the international financial community and his invariable courtesy, whether in speaking to a junior staff member or negotiating with the major industrial countries. He recalled the initial contacts in 1972 between representatives of the then–Soviet Union and Sir Alan, from which nothing materialized at that time, and the political realism with which, in 1973, he was among the first to appreciate that the former Bretton Woods system of fixed exchange rates had come to its end.

Sir Christopher McMahon paid tribute to Sir Alan Whittome's skills.

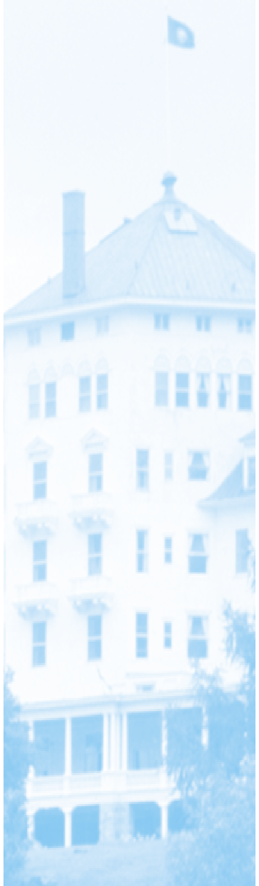
Sir Christopher McMahon reviewed the testing period of the 1960s and 1970s, when the European Department, which Sir Alan headed, was probably the IMF's most important department and the United Kingdom was undoubtedly its most important client. In the United Kingdom, he said, "we were always impressed by the way Alan's British nationality was never allowed, either by himself or by his superiors, to be an issue in his often delicate missions."

Speaking as a person who had worked closely with Sir Alan, P.R. Narvekar paid tribute to his "intellect, industry, and sense of responsibility," recognizing his qualities as an excellent team leader and manager "with superlative negotiating skills."

The final speaker, Michel Camdessus, described Sir Alan as his mentor during his first year as Managing Director, helping him design and redesign IMF financial facilities. He summed up the spirit of the evening, saying of Sir Alan "in the long, iterative process of the IMF's review system, he was able at each stage to add an extra touch, an extra value, always with the view of ending up with something helpful and 'doable' for the IMF."

Bretton Woods Committee meeting

Participants review measures taken to refocus IMF and promote transparency



On April 27, senior officials from the IMF, the World Bank, and the U.S. government, and others briefed the Bretton Woods Committee on key developments at the IMF and the World Bank, and called for increased public understanding of their contributions. Speaking at the annual meeting of the nonprofit committee—which is based in the United States and was organized to advance public awareness of international financial and development issues—were IMF First Deputy Managing Director Stanley Fischer; U.S. Secretary of State Colin Powell; U.S. Representative James Kolbe, who heads the Foreign Operations Subcommittee; Angel Gurría, Mexico's former Minister for Finance and Public Credit, who cochaired a recent commission on the role of multilateral development banks; World Bank President James Wolfensohn; and Inter-American Development Bank President Enrique Iglesias.

Refocusing the IMF

Fischer reviewed the changes under way to refocus the IMF, emphasizing that promoting transparency and adherence to international codes of good practices is central to the new agenda. He also highlighted the importance the IMF attaches to updating its armory of lending facilities and its new, broad-based initiative to engage the private sector in crisis prevention. "In recent months, the IMF has deepened its analysis of capital markets as an integral part of the IMF's surveillance activities, with the objective of contributing to crisis prevention," he noted. The organization also has given priority to changing how the IMF applies conditionality. "Notwithstanding the importance of structural policies in the countries to which we lend, there is general agreement," explained Fischer, "that our conditionality in this area has sometimes become unduly detailed and restrictive." The new objective is to "confine conditionality to areas that are critical to a program's success," he said, "but drawing the lines between critical and merely useful is not easy." The challenge, he added, is to help countries reach a point at which their programs are both locally owned and of high quality.

U.S. perspective

The broad tone of the meeting was set by Powell, who indicated that "the United States's prosperity and well-being are linked ever more closely to expanding growth and stability worldwide. That is why strong U.S. leadership in the IMF, the World Bank, and the WTO [World Trade Organization] is so crucial to the United States's future and the world's future," he said. "Globalization, free trade, open markets, the technology revolution, and economic and political reforms—the potential they hold for humankind is incredible, and the Bretton Woods institutions and the WTO can help the world's people realize it," Powell said. He also endorsed the value of IMF conditionality, noting that "it is only by ensuring that countries are following appropriate, sustainable policies that we know they will make the best use of IMF resources."

It is only by ensuring that countries are following appropriate, sustainable policies that we know they will make the best use of IMF resources.
— Colin Powell

Addressing relations between the Bretton Woods institutions and the U.S. Congress, Kolbe voiced strong support for the IMF and the World Bank. Continued public support, however, was another matter. Flagging U.S. congressional interest directly reflects local constituency lack of interest in the two institutions and belief that their programs are neither vital nor beneficial to the people of the United States. Combating these tendencies will require new political coalitions able to make a strong and effective case for the Bretton Woods institutions on and off Capitol Hill, he said.

Support for rescue packages

Gurría highlighted some of the main conclusions of a recent commission he cochaired with former U.S. Federal Reserve Board Chair Paul Volcker on the role of the multilateral development banks. Gurría defended the World Bank's involvement in financial rescue packages. "What could be more 'developmental' than helping countries get out of crises?" he asked.

Poverty alleviation

Wolfensohn and Iglesias addressed the challenges of poverty alleviation. Such efforts have borne limited fruit in Latin America, Iglesias said, and population growth continues to pose a major obstacle to long-term reductions in the absolute number of poor people in the region. But he also reminded the largely corporate audience that successful poverty reduction has the capacity to create a larger, more broadly based community of consumers and producers.

Wolfensohn's remarks on poverty alleviation gave pride of place to IMF–World Bank collaboration. Citing a recent trip to sub-Saharan Africa with IMF Managing Director Horst Köhler in which they met with 22 heads of state from the region (see *IMF Survey*, March 5, page 69), he praised the joint approach undertaken by the Bretton Woods institutions. The challenge and opportunity lie in their joint efforts to devise more collective approaches to meeting their common objective. ■

John Starrels
IMF External Relations Department

IMF SURVEY

Conference focuses on financial stability and prudential regulation in the Pacific

A conference entitled Financial Sector Stability and Development: The Case of the Pacific Island Countries was held in late February in Apia, Samoa. The conference was cosponsored by the IMF's Office in Tokyo and the Pacific Financial Technical Assistance Centre (PFTAC)—a United Nations Development Program (UNDP) regional project executed by the IMF with cofinancing from Australia, New Zealand, the Asian Development Bank, the Pacific Forum, and Japan—in collaboration with the Samoan authorities. It brought together senior financial officials from the 12 Pacific island countries and representatives of the multilateral and bilateral donors active in the region.

Participants exchanged views on financial sector issues confronting the region and familiarized themselves with the recently introduced international standards, codes, and best practices, as well as the IMF's Financial Sector Assessment Programs (FSAP) and Reports on Standards and Codes (ROSC) exercises. The conference was timely, because a number of Pacific island countries have experienced problems with various financial institutions in their jurisdiction, and some have been urged by the international community to strengthen the supervision of offshore banks and take measures against money laundering and related crimes. The conference thus provided an opportunity to develop a better mutual understanding of how these objectives might be achieved.

Financial sector

Participants emphasized the importance of better policy coordination between governments and central banks and early restructuring of weak banks, including through equity sales to foreign partners, as some Pacific island countries had done recently. Most participants agreed that reform of provident funds and development banks should also be expedited. More generally, participants reaffirmed that sustaining financial sector soundness and stability is essential for economic development in Pacific island countries.

Prudential and regulatory issues

Participants underscored the need for improved prudential regulation and supervision, complemented by better self-regulation and internal governance. These improvements are needed especially for financial institutions other than banks, because most banks in Pacific island countries are now foreign owned and supervised from abroad. Given limited resources, participants called for closer cooperation between supervisory bodies in the region and argued that the Pacific Islands Prudential Regulation and Supervision Initiative should be made operational. This issue will be discussed further during the 2001 Forum Economic Ministers Meeting in June in the Cook Islands. PFTAC, which has been promoting this initiative and serves as its Secretariat, will be assisting the group in preparing discussion points and developing agendas.

Conference hosts (from left): Kunio Saito, Director of the IMF's Regional Office for Asia and the Pacific; Hianauri Petana, Financial Secretary, Samoa; and Klaus Riechel, PFTAC Project Coordinator.

Offshore banking and money laundering

This topic sparked a particularly lively discussion. Financial officials from Pacific island countries with offshore financial centers generally accepted the need to meet international standards of regulation and supervision, including taking decisive action against money laundering and other illicit financial activities. However, they strongly objected to being "blacklisted" without being consulted and called for a more transparent and participatory discussion of their "wrongdoings," in which they would be treated as equal partners in international arrangements. A representative of the Asia Pacific Group on Money Laundering helped explain the background to the "blacklisting" process and the roles of different organizations in this area.

Standards and codes

An IMF presentation reviewed FSAPs, ROSCs, and related international codes, standards, and best practices. This was the first opportunity for many officials from the Pacific island countries to hear about these initiatives in detail and to consider the implications for their countries. While they generally supported the objectives of the initiatives, they indicated they would need greatly increased levels of technical assistance to understand the implications of these standards for their countries and to adhere to them.

Review of technical assistance

The conference was followed by a one-day meeting to launch the Strategic Review of Technical Assistance in Economic and Financial Management in the Pacific. This review will assess the adequacy and appropriateness of current and planned economic and financial technical assistance to the region from all sources. Its findings will, among other things, help define the future responsibilities of PFTAC, for which all participants expressed strong support and which they see as playing a critical role in the prioritization and coordination of technical assistance in the region. At its January 5 meeting, the IMF's Executive Board strongly supported the IMF's intention to expand the use of regional arrangements as a means of better prioritizing technical assistance, fostering greater ownership of technical assistance operations, and ensuring more effective planning and implementation of technical assistance in coordination with others. ■

Nigel Bradshaw, IMF Technical Assistance Office

Members drawing on the IMF "purchase" other members' currencies or SDRs with an equivalent amount of their own currency.

Stand-By, EFF, and PRGF Arrangements as of April 30

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By Arrangements				
Argentina[1]	March 10, 2000	March 9, 2003	10,585.50	6,751.19
Bosnia and Herzegovina	May 29, 1998	May 29, 2001	94.42	13.99
Brazil[1 2]	December 2, 1998	December 1, 2001	13,024.80	5,155.65
Croatia	March 19, 2001	May 18, 2002	200.00	200.00
Ecuador	April 19, 2000	June 30, 2001	226.73	113.38
Estonia	March 1, 2000	August 31, 2001	29.34	29.34
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania	March 8, 2000	June 7, 2001	61.80	61.80
Nigeria	August 4, 2000	August 3, 2001	788.94	788.94
Pakistan	November 29, 2000	September 30, 2001	465.00	210.00
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Papua New Guinea	March 29, 2000	September 28, 2001	85.54	18.89
Peru	March 12, 2001	March 11, 2002	128.00	128.00
Sri Lanka	April 20, 2001	June 19, 2002	200.00	96.65
Turkey[1]	December 22, 1999	December 21, 2002	8,676.00	4,742.90
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Total			**34,905.65**	**18,637.09**
EFF Arrangements				
Bulgaria	September 25, 1998	September 24, 2001	627.62	52.32
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
FYR Macedonia	November 29, 2000	November 28, 2003	24.12	22.97
Indonesia	February 4, 2000	December 31, 2002	3,638.00	2,786.85
Jordan	April 15, 1999	April 14, 2002	127.88	91.34
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Ukraine	September 4, 1998	August 15, 2002	1,919.95	1,017.73
Yemen	October 29, 1997	October 28, 2001	72.90	26.40
Total			**8,696.57**	**6,283.71**
PRGF Arrangements				
Albania	May 13, 1998	July 31, 2001	45.04	4.71
Benin	July 17, 2000	July 16, 2003	27.00	16.16
Bolivia	September 18, 1998	September 17, 2001	100.96	56.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	22.35
Cambodia	October 22, 1999	October 21, 2002	58.50	33.43
Cameroon	December 21, 2000	December 20, 2003	111.42	95.50
Central African Rep.	July 20, 1998	January 19, 2002	49.44	24.96
Chad	January 7, 2000	January 6, 2003	36.40	26.00
Djibouti	October 18, 1999	October 17, 2002	19.08	13.63
Ethiopia	March 22, 2001	March 21, 2004	86.90	69.52
FYR Macedonia	November 29, 2000	December 17, 2003	10.34	8.61
Gambia, The	June 29, 1998	December 31, 2001	20.61	6.87
Georgia	January 12, 2001	January 11, 2004	108.00	90.00
Ghana	May 3, 1999	May 2, 2002	191.90	120.85
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Guyana	July 15, 1998	July 14, 2001	53.76	28.88
Honduras	March 26, 1999	March 25, 2002	156.75	64.60
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	28.69
Lao People's Dem. Rep.	April 25, 2001	April 24, 2004	31.70	27.17
Lesotho	March 9, 2001	March 8, 2004	24.50	21.00
Madagascar	March 1, 2001	February 29, 2004	79.43	68.08
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2002	46.65	33.15
Mauritania	July 21, 1999	July 20, 2002	42.49	24.28
Moldova	December 15, 2000	December 20, 2003	110.88	92.40
Mozambique	June 28, 1999	June 27, 2002	87.20	33.60
Nicaragua	March 18, 1998	March 17, 2002	148.96	33.64
Niger	December 14, 2000	December 21, 2003	59.20	50.74
Rwanda	June 24, 1998	January 31, 2002	71.40	19.04
São Tomé and Príncipe	April 28, 2000	April 28, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2002	107.01	28.54
Tajikistan	June 24, 1998	December 24, 2001	100.30	28.02
Tanzania	March 31, 2000	April 3, 2003	135.00	75.00
Vietnam	April 13, 2001	April 12, 2004	290.00	248.60
Yemen	October 29, 1997	October 28, 2001	264.75	94.75
Zambia	March 25, 1999	March 28, 2003	254.45	199.51
Total			**3,298.49**	**1,997.33**
Grand total			**46,900.71**	**26,918.13**

[1] Includes amounts under Supplemental Reserve Facility.
[2] The amount agreed and the undrawn balance include SDR 9,117.36 million and SDR 2,604.96 million, respectively, under the Supplemental Reserve Facility which expired on December 1, 1999.
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.
Data: IMF Treasurer's Department

Discussion focuses on impact of globalization on inequality and rich-poor disparities

Does globalization lead to greater equality in the world, or does it tend to heighten existing inequalities and lead to increased disparities between rich and poor in society? This topical issue was addressed by speakers at the Annual Bank Conference on Development Economics, held at the World Bank on May 1–2.

In his opening remarks, World Bank President James Wolfensohn articulated this theme, stressing that "poverty is represented not just by dollars, but by social justice, opportunity, and safety." In this climate, he said, it is essential to listen to the voices of the poor.

Noting that in the next 25 years the population of developing countries will increase by another two billion, Wolfensohn said that rising inequality represents a clear and immediate challenge to policymakers. Globalization is not a static consideration, he said, but a force that has been developing steadily over the years. In this environment, it is essential for the World Bank not to be making decisions solely on impressions formed in Washington, but to be operating actively in the countries and regions.

New strategy for development

In his keynote address, Nicholas Stern, World Bank Chief Economist, outlined a new framework for development institutions. Two pillars support the framework, he said: building the right climate for investment and empowering the poor to share in the growth. These pillars, in turn, are built on a complementary research agenda.

An investment climate, he explained, refers to a country's policy, institutional, and behavioral environment, which affects not only the level of investment but also the productivity of current investment and the willingness to invest for the longer term. It depends on three factors: macroeconomic stability and openness, quality of infrastructure, and good governance and strong institutions. Governments build an effective investment climate not just to lure foreign investment and multinationals, Stern said. Most of the world's poor are working on farms and in small and medium-sized enterprises, and if authorities don't encourage investment there, strong growth and poverty reduction are unlikely. Not surprisingly, though, these policies are inclusive—what's good for the poor also encourages foreign investment. It's a self-reinforcing story, he continued: existing investment becomes more productive, rewards to productive behavior increase, entrepreneurs are encouraged, and the economy tends to attract more investment. Success breeds success (and failure breeds failure).

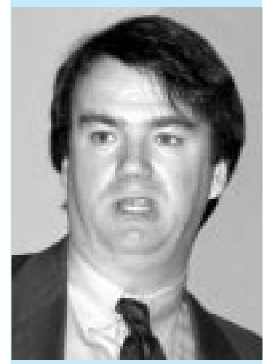
The central role of international financial institutions, in Stern's opinion, is to promote and foster private sector–driven growth in ways that are pro-poor. Their projects not only create powerful demonstration effects, they enhance forces for changes in governance. Without such changes, economic decisions may continue to be dominated by those benefiting from (and who helped to create) the status quo. International financial institutions also need to collect and analyze data to help their clients develop the skills to evaluate the investment climate in their own countries. Research is needed as well, he added, on the effects of investment climate reforms.

But an improved, more inclusive investment climate is not enough to reduce poverty, Stern continued. A country must empower its people to participate in that growth, and to do so, it must invest in and promote education, social protection, and community participation—subjects for the research agenda as well.

Globalization and inequality

The dimensions of inequality were discussed in the opening panel, chaired by Johannes Linn, the Bank's Vice President for Europe and Central Asia. The historical links between trade, migration, and capital flows, on the one hand, and inequality, on the other, were explored by Kevin O'Rourke of Trinity College, Dublin. Taking a deliberately long-term view, O'Rourke said that overall, inequality between countries had increased dramatically since the 1820s. The world economy was well integrated in 1914, he said, but later retreated into protectionism during the interwar period. To a large extent, integration after 1945 can be seen as an attempt to recoup the losses of the interwar period. O'Rourke also noted that globalization can have an impact on income distribution within a country, with the degree of inequality varying depending on the country being considered, the scale of globalization involved, and the distribution of endowments.

Nicholas Stern



Kevin O'Rourke

Members' use of IMF credit
(million SDRs)

	During April 2001	January–April 2001	January–April 2000
General Resources Account	**141.12**	**3,640.70**	**1,324.82**
Stand-By	141.12	3,581.90	1,012.52
SRF	0.00	2,349.57	0.00
EFF	0.00	58.80	312.30
CFF	0.00	0.00	0.00
PRGF	**76.87**	**244.16**	**106.81**
Total	**217.99**	**3,884.86**	**1,431.63**

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

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Daniel Cohen of the Ecole normale supérieur, Paris, traced how the private returns to human capital may be compared across poor and rich countries, how it has evolved over time, and how globalization might have affected them. He focused on changes in levels of education rather than on growth rates. Surprisingly, he found that the social returns to education do not appear to have risen in the rich countries; rather, they appear to have risen in poor countries. This finding challenges the conventional wisdom that technological progress has been biased in favor of skilled workers in rich countries, while poor countries would experience a decline in their returns to education, and that globalization raises the demand for low-skilled workers in the developing world.

Role of foreign trade and investment

Richard Cooper, of Harvard University, speaking at a panel chaired by Paul Collier, Director of the Bank's Development Research Group, addressed the influence of foreign trade and investment on two of globalization's outcomes: growth and inequality. Trade and income are intertwined with so many complex variables, he said—"Everything depends on everything else"—that it's meaningless to search for the influence of one on the other. Surveying both theoretical and empirical work, he found no compelling reasons to believe that trade actually promotes growth (as distinguished from increases in real income). The theoretical case for foreign direct investment is greater, although he found evidence in the history of foreign investment inconclusive. Yet, he added, the last fifty years offered the best economic performance in human history, and the role of trade liberalization in that performance can't be discounted.

Global inequality is a natural consequence of uneven growth, according to Cooper. Not all countries are ready to sustain growth at the same time, but uneven growth is better than none. It is the task of organized society, he said, to make sure the gainers outweigh the losers.

Daniel Cohen

Issues in finance workshop

Participants in a parallel workshop looked at finance issues. Background papers included an assessment of different governmental approaches to bank regulation and supervision; an examination of the benefits of related lending, using a data set for Mexico; and a discussion of why the bond market matters for financial development. Other papers at the conference focused on health care, human capital, and economic development. ■

Richard Cooper

The ABCDE papers are available online at the World Bank's website: http://econ.worldbank.org/abcde

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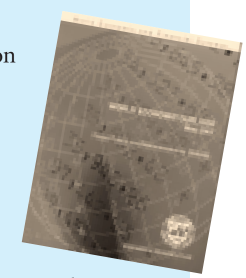
01/47: *Financial Sustainability and Reform Options for the Albanian Pension Fund*, Volker Treichel



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