

NEWS: Group of Eight debt relief proposal

In welcoming the Group of Eight finance ministers' recent debt relief proposal, IMF Managing Director Rodrigo de Rato said it "goes a long way toward helping Heavily Indebted Poor Countries escape a heavy debt burden." De Rato also welcomed the G-8 proposal for a new trust fund to help poor countries deal with shocks. The proposals will be put to the Annual Meetings of the IMF and World Bank in September.



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171

NEWS: Why budget frameworks help HIV/AIDS relief

Does World Bank and IMF advice encourage governments in poor countries to restrict spending on HIV/AIDS in the name of fiscal righteousness? A recent article in a medical journal, *The Lancet*, claims so, but Jean-Louis Sarbib and Peter Heller, responding on behalf of the two institutions, beg to differ. They argue that the real issues that need to be addressed in the fight against AIDS are getting donors to live up to their commitments and helping recipient countries use additional money in the best way possible.



Alexander Jee/AFP Photo

175

IN THIS ISSUE

- 170 What's on
- 170 At a glance
- 171 In the news
 - G-8 debt relief proposal*
 - ECLAC seminar*
 - IMF strategic review*
 - De Rato in Chad*
 - Rebuttal to The Lancet*
- 176 Country focus
 - Ghana's banking sector*
- 178 Outreach
 - Central America*
- 180 Policy
 - IMF-supported programs*
- 183 IMF lending
 - Arrangements*
- 184 Forum
 - World Bank "to do" list*

POLICY: Designing change: IMF-supported programs

During 1995–2000, many countries turned to the IMF for its financial support for their policy programs. What were the objectives of these programs? And were they successful? A detailed examination of IMF-supported programs in this period shows important successes, but also significant challenges, both for programs in middle-income countries—especially those dealing with capital account crises—and for programs in low-income countries, where reducing poverty and promoting growth, with external viability, are central objectives.

180

FORUM: A World Bank "to do" list

Incoming World Bank President Paul Wolfowitz faces five crucial tasks, including the need to revitalize the institution's role in China, India, and middle-income countries, if he is to successfully reshape the multilateral lender to address the problems of the 21st century. These tasks are highlighted in a report, *The Hardest Job in the World*, prepared by a group of 20 well-known development specialists for the Washington-based Center for Global Development.



Joe Riedler/Getty Images

184

What's on

JUNE

23 IMF Book Forum, Anirvan Banerji, *Beating the Business Cycle: Can Turning Points in the Economy be Predicted?* Washington, D.C.

29–July 1 ECOSOC Substantive Session, High-Level Segment, New York

JULY

1–5 International Conference on AIDS in Asia and the Pacific, Kobe, Japan

4–8 IMF workshop on anti-money laundering and combating the financing of terrorism, Dalian, China

6–8 Group of Eight Summit, Gleneagles, Scotland

13–14 IMF seminar for legislators on value-added tax policy and administration, Lao P.D.R.

AUGUST

22–26 IMF–Singapore Regional Training Institute seminar, “Creditor Rights in Emerging Economies,” Singapore

SEPTEMBER

6–7 IMF high-level seminar, “Financial Stability—Central Banking and Supervisory Challenges,” Washington, D.C.

8 IMF Economic Forum, “IMF Conditionality: Good, Bad, or Ugly?” Washington, D.C.

14–16 High-level plenary meeting, UN General Assembly, to review progress on UN Millennium Declaration commitments, New York

24–25 IMF and World Bank Annual Meetings, Washington, D.C.

OCTOBER

19 IMF Book Forum, Pietra Rivoli, *Travels of a T-shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*, Washington, D.C.

NOVEMBER

3–4 IMF Jacques Polak Sixth Annual Research Conference, Washington, D.C.

4–5 Fourth Summit of the Americas, Mar del Plata, Argentina

16–18 The World Summit on the Information Society, Tunis, Tunisia

DECEMBER

13–18 The Sixth World Trade Organization Ministerial Conference, Hong Kong SAR

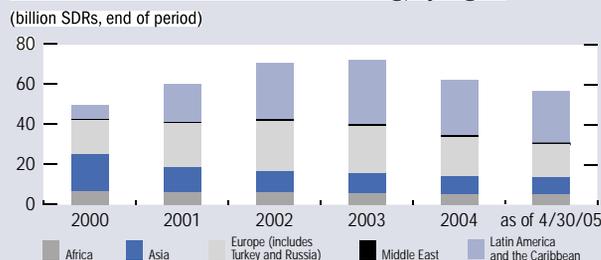
IMF Executive Board

For an up-to-date listing of IMF Executive Board meetings, see www.imf.org/external/np/sec/bc/eng/index.asp.

At a glance

IMF financial data

Total IMF credit and loans outstanding, by region



Largest outstanding loans

(billion SDRs, as of 4/30/05)

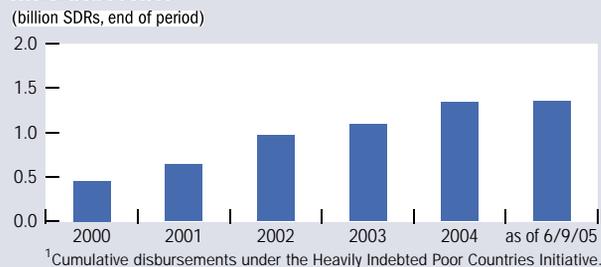
Nonconcessional

Brazil	15.36
Turkey	13.08
Argentina	8.10
Indonesia	6.01
Uruguay	1.64

Concessional

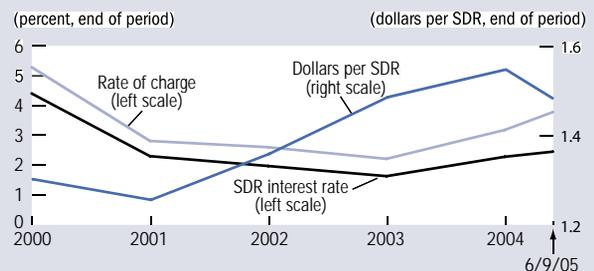
Pakistan	1.03
Zambia	.58
Congo, Dem. Rep. of	.53
Ghana	.29
Tanzania	.27

HIPC debt relief¹



Related rates

SDR interest rate, rate of charge on IMF nonconcessional loans outstanding, and dollars per SDR



Note on IMF Special Drawing Rights

Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are

allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

De Rato welcomes Group of Eight proposal on debt relief

IMF Managing Director Rodrigo de Rato welcomed the proposal by the finance ministers of the Group of Eight (G-8) countries to relieve the debt of the poorest countries. “This proposal goes a long way toward helping Heavily Indebted Poor Countries (HIPCs) escape a heavy burden,” he said in a statement after attending the meeting in London June 10–11. He said the IMF will examine the details and implementation of the G-8 proposal and work with its members toward an agreement.

The proposal, which is to be put to the Annual Meetings of the IMF and World Bank in September, could lead to the cancellation of all outstanding debt to the IMF, the World Bank, and the African Development Bank for eligible HIPCs, allowing them to accelerate poverty reduction and boost their ability to achieve the Millennium Development Goals. The countries’ debts would be cancelled once they have reached the HIPC initiative’s completion point, meaning that they have implemented key policy reforms, maintained economic stability, and adopted and implemented a poverty reduction strategy for at least one year.

Currently, 38 countries potentially qualify for assistance under the HIPC initiative, 27 of which already receive debt relief under

HIPC. If the G-8 proposal is adopted by the member countries of the IMF and the World Bank, 18 HIPCs could benefit immediately: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The remaining HIPCs would become eligible for debt cancellation when they reach the completion point.

Existing IMF resources are expected to cover the costs of IMF debt relief without undermining the IMF’s financing capacity. De Rato noted that the proposal does not compromise “the commitment of the IMF to assist its poorest members and meet existing and projected obligations.” In cases where debt relief cannot be covered by existing IMF resources, such as countries in arrears like Liberia, Somalia, and Sudan, additional resources are to be provided by donors. The G-8 finance ministers also proposed setting up a trust fund to support poor countries facing commodity price and other exogenous shocks. De Rato said he welcomed the proposal. The G-8 government leaders are scheduled to meet in Gleneagles, Scotland, for their annual economic summit on July 6–8. ■

Promoting prosperity in Latin America and the Caribbean

A May 29–30 roundtable seminar in Santiago, Chile—sponsored by the IMF and the UN Economic Commission for Latin America and the Caribbean (ECLAC)—highlighted a growing convergence of views on what needs to be done to sustain and strengthen the current growth momentum, create jobs, and attack poverty and inequalities in the region.

The seminar, which had before it a recent IMF staff study, “Stabilization and Reform in Latin America,” drew a distinguished group of participants, mainly from civil society organizations across the region. Speakers, including President Ricardo Lagos of Chile, Inter-American Development Bank President Enrique Iglesias, ECLAC Executive Secretary José Luis Machinea, and IMF Managing

Director Rodrigo de Rato, pointed to the need for strong country ownership of policies that combined macroeconomic sustainability with better-targeted and enhanced social and equity programs, while recognizing that the IMF and other international financial institutions should continue to play important partnership roles.

In his remarks, de Rato emphasized that current favorable economic conditions provide an excellent opportunity to move decisively to tackle vulnerabilities and structural challenges that have long compromised the region’s performance. He urged country authorities to remain focused on fiscal consolidation and debt sustainability, and to entrench the hard-won gains of low inflation. And he underscored the importance of renewed efforts to increase trade openness, improve flexibility in labor and product markets, strengthen the soundness of financial systems, and adopt wide-ranging governance reforms.

Seminar participants agreed that continued opening offers the only practical response to globalization and that responsible fiscal policy and flexible exchange rate management are essential anchors for macroeconomic stability. Increased private investment, faster productivity growth, and higher-quality public spending will also be needed to spur higher growth. Growth alone, however, is insufficient for the sharp reductions in poverty that are needed: in addition, reforms must tackle deeply engrained social issues, improve human capital, and strengthen social safety nets. ■



IMF keeps pace with a changing world

Over the past 60 years, the world's financial landscape has undergone extraordinary changes, and the IMF "has continually evolved to meet the needs of its members and the international economic system," according to Managing Director Rodrigo de Rato, addressing a joint IMF–Bundesbank symposium on June 8 in Frankfurt, Germany. He reviewed the origins and principal changes in the organization and shared some key ideas that are emerging from the IMF's current medium-term strategic review, which he initiated. The following is a summary of his remarks; the full text is available on the IMF's website (www.imf.org).

The IMF has always had as its central concern the health and stability of the world economy, but just as the world economy has had to absorb significant changes in technology, politics, culture, and economics, the IMF, too, has had to adapt. After the Bretton Woods system of fixed exchange rates collapsed in the early 1970s, an amendment to the IMF's Articles of Agreement led to a reorientation of its functions. In particular, in recognition of the close relationship between domestic economic policies and international stability, the IMF established a surveillance process that, de Rato observed, "to this day forms the basis for our systematic and compre-

hensive review of economic conditions and policies in each member country."

Similarly, its work with new members led to requests for advice and assistance beyond the traditional macroeconomic areas of fiscal and monetary policy and exchange rate systems. The IMF found itself helping countries establish institutions of monetary and fiscal policy, and devise supply-side structural policies to promote growth. After the dissolution of the former Soviet Union, the IMF provided assistance for formerly centrally planned economies to make the transition to market-based systems.

IMF financing underwent a great transformation, too, with concessional lending to low-income countries being added to its traditional short-term lending for balance of payments needs. Rapid development of international capital markets occasioned special financing policies to allow the IMF to assist countries facing capital account crises, and the IMF began to play an unanticipated role in facilitating the resolution of sovereign debt problems.

Meeting future needs

As it continues to serve the interests of its member countries and the international community, the IMF "has to be in a

Independent group to review IMF's financial sector, capital markets work

IMF Managing Director Rodrigo de Rato on June 6 announced the formation of a Review Group on the Organization of Financial Sector and Capital Markets Work in the IMF. William J. McDonough, Chair of the U.S. Public Company Accounting Oversight Board and former President of the Federal Reserve Bank of New York, will head the group, which has been formed to provide the IMF with an independent perspective on its financial sector and capital markets work, and how this work is allocated among its departments, especially the International Capital Markets and the Monetary and Financial Systems Departments, as well as the Research and the Policy Development and Review Departments.

The rising importance of private capital flows and of a stable and well-functioning financial sector have led to a greater emphasis on these areas in the IMF's work. "It is now time," de Rato said, "to review the ways in which the IMF has adapted." Also, as part of an ongoing strategic review of the IMF, the organization's Executive Board has asked that increased attention be given to financial regulation and oversight and to the determi-

nants of capital flows and their regulation. "This increased attention would mean that in Article IV surveillance, IMF missions would increasingly examine the regulations and environment in which domestic financial institutions and private capital markets operate, with attention to factors governing inward and outward flows of lending, equity investment, and direct foreign investment," de Rato stated.

In addition to McDonough, others participating in the review group are Jaime Caruana (Governor, Bank of Spain, and Chair of the Basel Committee on Banking Supervision), Terrence J. Checki (Executive Vice President, Emerging Markets and International Affairs, New York Federal Reserve), Mohamed El-Erian (Managing Director, Pacific Investment Management Co.), Paulo Leme (Managing Director, Emerging Markets Economic Research, Goldman Sachs & Co.), Toshiro Muto (Deputy Governor, Bank of Japan), and Joseph Yam (Chief Executive, Hong Kong Monetary Authority). Andrew Tweedie, a senior advisor in the IMF's Finance Department, will serve as the secretary.

position to deal with the influences that are expected to shape the global economy in the coming years. We must not remain static, nor must we change only in a reactive manner when forced to." Although the IMF's strategic review is still in its early stages, there is a sense, de Rato said, that the continuing evolution of the IMF must remain grounded in its main areas of responsibility: facilitating international monetary cooperation, fostering a liberal system of international trade and payments, and promoting macroeconomic and financial stability as a condition for sustained growth. What have emerged thus far, he indicated, are key ideas in five areas:

Surveillance. IMF surveillance provides the foundation for cooperation among members in promoting stability and growth in the global economy. With increased trade and financial linkages among nations, and strong connections between economic performance, poverty, and security issues, cooperation in addressing shared problems is more important than ever. The IMF should continue strengthening its bilateral surveillance process, while remaining fully informed by regional and global perspectives. Systemically important countries continue to deserve special attention.

Financial sectors and capital markets. The IMF is the one international organization capable of carrying out financial sector surveillance universally and comprehensively. Further work is needed, however, to deepen the IMF's role in anticipating sources of instability and generating timely responses, and in helping countries strengthen their financial sectors and adapt their prudential and administrative frameworks to benefit more from private capital flows.

Another top priority will be to strengthen the IMF's understanding of what drives global capital asset allocation, and capital flows across sectors and national borders. Early identification and assessment of capital flows can help the IMF evaluate vulnerabilities in a timely manner. For members seeking to access international capital markets and integrate their economies into the global financial system, the IMF can provide advice on appropriate sequencing.

Financing and lending. The IMF must continue to provide temporary financing to help smooth the adjustment of

current account imbalances and prevent, or mitigate, capital account crises and cross-border contagion. But to succeed in this, de Rato said, "the IMF must be able to exercise selectivity in supporting only those adjustment programs that will put the relevant members firmly on the path to external viability." Robust domestic institutional frameworks and strong national ownership of programs will also be key. He added that the IMF "will continue working toward a clearer consensus on the appropriate circumstances and scale for IMF lending, the possible need for additional financial instruments, and the adequacy of the present framework for the orderly resolution of sovereign debt problems."

Role in low-income countries.

Low-income countries present the international community with profound challenges. Lasting poverty reduction can be achieved only with stable and sustained growth. The IMF can help countries put in place strong macroeconomic frameworks that will lead to economic expansion and debt sustainability, and help them reach the UN Millennium Development Goals. Issues that may warrant closer examination, de Rato said, include ensuring adequate resources in the Poverty Reduction and

Growth Facility, developing new ways to help low-income countries deal with economic shocks, enhancing the IMF's role in signaling to others the strength of country policies in instances where low-income countries do not need or want IMF lending, and taking a closer look at the IMF's role in supporting countries' poverty reduction strategies and its relationship with donors and aid agencies.

Internal governance and management. To maintain the IMF's effectiveness, the membership must resolve its own governance issues. De Rato called for all members to have adequate voice and participation in the institution's decision making and for a distribution of quotas that reflect developments in the global economy.

Further, the institution's resources must be commensurate with the tasks it is asked to perform. The IMF's management and Executive Board remain committed to the most effective use of available resources, and the strategic review will help to identify needs, define priorities, and consider possibilities to redeploy resources to higher-priority areas. ■



IMF headquarters in Washington, D.C.

Michael Spindler/IMF

De Rato sees need for unrelenting efforts to stem Africa's human tragedy

IMF Managing Director Rodrigo de Rato visited Chad on May 19–20, combining policy discussions with the authorities with a firsthand view of one of the refugee camps that Chad is supporting with help from the international community.

In meetings with President Idriss Déby and other senior officials, de Rato discussed the policy challenges facing Chad and the opportunities arising from the country's increased oil revenues. These oil resources, it was agreed, provide an unprecedented means to reduce poverty and make progress toward the UN Millennium Development Goals. To that end, the discussion emphasized the importance of maintaining momentum in policy implementation, including reforms, particularly with respect to fiscal management and the cotton industry.

President Déby also told de Rato about the difficulties his country faces in hosting over 200,000 refugees from the Darfur region of Sudan. The conflict in Darfur, Déby explained, has placed large demands on the national budget—costs that should be equitably shared with the international community. He also cited problems of deforestation, caused by refugees leaving the camps to search for firewood, and pressures on water resources.

The next day, de Rato set out for Oure Cassoni Refugee Camp—one of 12 refugee camps set up by the UN High Commissioner for Refugees (UNHCR) in eastern Chad. He hoped to gain firsthand knowledge of the adverse effects that African conflicts are having on the economy and living con-

ditions, and call attention to the IMF's postconflict work, which helps countries restore economic institutions in the aftermath of civil and cross-border conflicts.

Escorted by Secretary of State for Economy and Finance Abbas Mahamat Tolli and hosted by UNHCR Representative Ana Liria-Franch, de Rato made the 500-mile (800-km) journey from the capital of N'Djamena to the camp, which is only 10 miles (16 km) from the frontier with Sudan. At Oure Cassoni, he was greeted by refugee representatives as well as representatives from UN agencies and nongovernmental organizations—International Rescue Committee, ACTED (Aid for Technical Cooperation and Development), and Action contre la faim. He presented a donation from the IMF's Civic Program, telling the humanitarian workers at the camp that the IMF joins the international community in supporting Chad's efforts as a host nation for the refugees. "I can only hope," he said, "that before too long the necessary conditions will be established for the refugees to return to their homes in Sudan."

De Rato then spent time visiting the camp, which is home to around 25,000 refugees. At the health center, he sat with a number of the sick—many suffering from nutrition-related ailments—and saw how camp residents were attempting to make their provisional accommodations more homelike by building traditional mud walls around their tents. He also visited a family at home.

In talks with residents and camp workers and in discussions with local officials (including the Sultan of Dar Dilia, whose domain encompasses both town and camp), de Rato heard concerns about the presence of so many refugees in such an inhospitable environment—a stark desert landscape with temperatures soaring above 104 degrees Fahrenheit (40 degrees Celsius). It is clear that the land cannot sustain these large numbers of people (with water supplies a particular problem), but, at present, there is nowhere else for the refugees to go.

The longer-term solution, de Rato said, lay elsewhere. He noted that "armed conflicts have fractured the social fabric and hindered economic development in Africa . . . Efforts toward peace have to be unrelenting so as to end the human tragedy that has affected too many lives in the region." ■



Stephen Jaffe/IMF

On a visit to a refugee camp in Chad, de Rato said he hoped "that before too long the necessary conditions will be established for the refugees to return to their homes in Sudan."

Wayne Camard
IMF African Department

Why budget frameworks help—not hinder—HIV/AIDS relief

In the May 21 issue of *The Lancet*, an international journal of medical science and practice, Ted Schrecker (University of Ottawa, Ontario, Canada) and Gorik Ooms (Médecins Sans Frontières, Brussels, Belgium) argued that government spending targets, created by the World Bank and the IMF under medium-term expenditure frameworks, prevent foreign aid from reaching HIV/AIDS programs in the world's poorest countries. They also suggested that "the international community has not taken seriously enough the acute need for new resources to assist health systems in the developing world, especially in sub-Saharan Africa." The World Bank-IMF rebuttal, to appear in the June 18 issue of *The Lancet*, follows.

It is disheartening to see your esteemed medical publication providing a forum for serious accusations about the International Monetary Fund (IMF) and the World Bank (May 21, p. 1821). For all of the strong rhetoric of the article, one fact stands out: Gorik Ooms and Ted Schrecker fail to cite a single instance in which Bank or Fund policies actually restricted spending on HIV/AIDS.

Take the example they offer of Mozambique, where, according to Ooms and Schrecker, officials were allegedly told in 2002 that their spending plans "might have been too ambitious." The numbers tell a very different story. From 2001 to 2004, Mozambique's economy grew about 9 percent a year, after taking into account inflation. Meanwhile, the government's spending on health programs and HIV/AIDS programs grew exactly in line with that level of growth. That adds up to a substantial real increase in spending on HIV/AIDS every year.

Accordingly, the charges levelled by Ooms and Schrecker do not stand up to the experience of frontline practitioners. A recent survey by the Center for Global Development, Washington, DC, USA—which drew 353 responses from professionals familiar with HIV/AIDS prevention, treatment, and care—showed the following concerns: lack of political will (29 percent); poor national coordination (28 percent); shortcomings of the health care delivery system (14 percent); national absorptive capacity constraints (8 percent); policy confusion (7 percent); donor interference (3 percent); ministry of finance unwillingness to permit additional spending (3 percent); Global Fund restrictions/requirements (2 percent); World Bank restrictions (1 percent); IMF caps (1 percent); and other (5 percent). These results underline, if need be, that fighting the AIDS pandemic is a complex and multifaceted challenge, as Ooms and Schrecker undoubtedly agree.

But that does not mean enough is being done in Mozambique or many other developing countries. Ooms and Schrecker correctly point to the international community's failure to provide the resources needed to combat HIV/AIDS (and, we would add, the other diseases afflicting the poorest countries). But blaming the IMF and the Bank for these failures removes the spotlight from the real issues that we need to address: getting the donors to live up to their commitments and helping recipient countries to use additional money in the best way possible.

The Medium-Term Expenditure Frameworks (MTEFs) that Ooms and Schrecker single out are not a reflection of some malign intent. They are simply tools to enable forward-looking policy planning. The MTEFs plainly state what money is available and what programs are possible within the context of that resource envelope. They do not in any way restrict the additional spending of new grant aid. Make more aid reliably available, and more long-term programs will be possible.

We have stated all of these points publicly many times. And we would have been pleased to show Ooms and Schrecker how we are pressuring donors to increase aid and to make aid flows predictable, and how we are working with countries when more money is made available. A good example is Malawi, where a major increase in grant aid to the health sector began last year. We could also have described our extensive consultations with UNAIDS, the Global Fund, and President Bush's Emergency Plan for AIDS Relief (PEPFAR). Indeed, in the past year we have worked closely with Peter Piot of UNAIDS and his staff to ensure adequate coordination in our mutual efforts in the area of HIV/AIDS. And we would have highlighted the chronic problem that afflicts health care throughout Africa—the desperate need for large numbers of skilled doctors and nurses. This is a problem that cannot be solved overnight and that clearly requires vast and coordinated efforts from both countries and donors to which our institutions are deeply committed.

The Bank and the Fund have made an unequivocal commitment to support international efforts to solve the health crisis of the low-income countries. We are ready to work with all parties to achieve this goal. This will help us get there more effectively than polemics.

We declare that we have no conflict of interest. ■

Jean-Louis Sarbib, World Bank,
and Peter S. Heller, IMF

Sarbib J-L, Heller PS. Fiscal Space: response from World Bank and IMF. *Lancet* 2005; 365: 2085. Reproduced by permission of Elsevier Ltd.

Why do Ghanaian banks behave uncompetitively?

A competitive banking system is important for effective financial intermediation—channeling savings into productive investment—and this, in turn, is a key to economic growth. A new study finds that an uncompetitive market structure as well as certain other characteristics of the banking system and economy are hampering financial intermediation in Ghana. Thierry Buchs, who recently transferred from the World Bank's International Finance Corporation to Switzerland's State Secretariat for Economic Affairs, and Johan Mathisen of the IMF's Policy Development and Review Department, spoke with Jacqueline Irving of the IMF Survey.

IMF SURVEY: Why are banks in Ghana behaving uncompetitively?

MATHISEN: The main reason is the government's continuing financing needs; banks have been able to rely on interest earnings on their large holdings of treasury bills, with little need to compete for lending business in the private sector. A second reason is that large banks have advantages, including economies of scale, and the small savings base prevents smaller banks from emerging quickly. A third reason is that Ghana lacks an enabling business environment for the private sector. High investment costs might also deter new entrants—particularly costs of telecommunications, which are largely dysfunctional outside the main cities.

IMF SURVEY: Why did you do this research now?

BUCHS: We were struck by the Ghanaian banking sector's relatively high profitability indicators—significantly higher than those not only in many developed countries but also in other African countries and emerging markets. We thought these “super profits” were likely to be related to the market's uncompetitive nature. To estimate competition in the market, we looked at banks' financial statements, applying a model that had been derived and used for other markets worldwide since the 1980s but never before for an African country. We ran regressions using bank level data, allowing for bank-specific differences in the production function and differences in bank size and ownership. We then looked at the prices of factor inputs.

MATHISEN: Our study, which relied largely but not solely on the model, grew out of an IMF Financial Sector Stability Assessment (FSSA) Update for Ghana in 2003. We also incorporated local bankers' perspectives in our findings.

The model's framework is simple, testing whether marginal revenues equal marginal costs and the extent of any differential. This enabled us to come up with an overall score to determine the level of competition in the banking sector.

IMF SURVEY: Did you find that when interest rates—treasury bill yields—fell, as has happened to some extent in recent years, banks' revenues and profitability declined in tandem?

MATHISEN: We looked at the banking system's dependency in terms of its interest earnings. This was very significant for the banks in both nominal and real terms and that indicated that banks are heavily dependent on this source of income.



Eugene Salazar/IMF

Johan Mathisen

IMF SURVEY: You see sustained fiscal adjustment—to further reduce interest rates and avert the crowding out of private investment—as necessary to deepen, and increase the efficiency of, the Ghanaian banking system. But fiscal lapses during election years have caused problems that have proved difficult to resolve in subsequent years. What is the way around this?

MATHISEN: That's a tough question. Continued fiscal adjustment is one prerequisite to achieving a higher level of competition and further developing all financial services in the economy. Reverting to the stop-and-go fiscal policies of the past would only prolong banks' dependence on income from treasury bills. The

government's financing needs have had a key role in fostering inefficiency in the banking system. If banks were no longer able to rely on this huge source of revenue, they would have to start operating as banks again and look for business opportunities. A big question is whether the banking system's ability to find and develop new, profitable opportunities has eroded because of its long-standing dependence on this easy income.

BUCHS: Improvements in the business environment are essential to enabling banks to appraise investment projects, develop the proper credit culture, and start investing in private sector projects. Better protection of creditor rights, including the ability to seize collateral where necessary, is fundamental to banks' willingness and ability to take risks.

IMF SURVEY: The risk-averse nature of banks in Ghana means small to medium-sized enterprises continue to face restricted access to bank financing. Could credit reference bureaus improve the sector's efficiency, assuming macroeconomic

conditions are conducive to the provision of bank credit to the private sector?

BUCHS: Such bureaus can definitely provide part of the information banks need to be well informed about potential customers—including small and medium-sized enterprises that are not well known to the banks but that may be reasonable credit risks. It also will be increasingly necessary for banks to improve the quality of their loan portfolios. Ghanaian banks generally have high levels of nonperforming loans (NPLs)—around 25 percent of total loans on average. Moreover, until very recently, the definition of an NPL in Ghana and the associated provisioning modalities were rather lax compared with other countries. This means that NPLs have been underestimated. Some cleanup of banks' portfolios is needed first, to enable them to take additional risks and move to a less traditional customer base.

MATHISEN: A credit reference bureau is, in fact, now being set up in Ghana. This is clearly part of what is needed so that when the banks become banks again, they are not saddled with huge amounts of NPLs.

IMF SURVEY: A new banking law under discussion would align capital adequacy requirements with international standards prescribed in Basel II. What effect would this have on competitiveness and efficiency?

BUCHS: Moving toward international standards would increase the transparency of banks' finances and hopefully prompt a simultaneous move away from heavy reliance on treasury bills. This would likely increase competitive pressure and produce consolidation within the system.

IMF SURVEY: How has the presence of foreign banks affected competitiveness and efficiency? Could future mergers and acquisitions help address high investment costs?

MATHISEN: Our results show foreign-owned banks are better at generating revenues than wholly Ghanaian ones. One can hypothesize that this is because they've been better able to access revenues from fee-based services such as foreign exchange transactions. Our research did not indicate directly, however, that a larger share of foreign ownership in the banking system would automatically increase competition.

BUCHS: This was puzzling. It is striking that foreign banks appear more profitable than domestic banks. The crucial difference is that they have better-quality portfolios. Foreign banks have not

really been affected by political lending, and loans extended to state enterprises that have subsequently gone into default comprise a large part of the poorest-quality bank portfolios.

MATHISEN: Our research does not indicate that foreign banks are actually better at scrutinizing customers. Foreign banks tend to have access to more creditworthy international clients. So while they are more profitable, the reasons are not necessarily straightforward.

IMF SURVEY: Foreign banks seem to operate alongside and quite separately from the domestic banks.

BUCHS: Yes. Because there is a lack of competition, there is significant market segmentation. This is related to the fact that the banking sector is skewed in favor of larger players.

MATHISEN: This also points to our finding that state-owned banks tend to be less able to generate revenues from interest paid by borrowers, the traditional core banking business. But there is no significant difference in the total revenues of state-owned and other banks. That indicates that state-owned banks have somehow been able to recoup these revenue losses, perhaps by servicing larger public enterprises that are late on their payments or have debt workouts.

IMF SURVEY: Could further development of the nonbank financial sector help spur competition in the banking sector?

MATHISEN: We had insufficient data to develop recommendations for further development of

the nonbank financial sector. Since our results show that size brings significant advantages in Ghana, it would be difficult to argue that further development of, for example, microfinance would have a major effect—at least until these institutions form a large network or become substantial players in the financial system. With only 5 percent of the population serviced by banks, one could nevertheless argue that certain nonbank financial institutions might provide specialized services to increase outreach.

BUCHS: I agree that it's difficult to see nonbank financial institutions creating additional competition at this stage. But they may serve a very important role for certain clients, particularly since there is significant demand for certain financial services not currently being provided by the commercial banks. For example, some nonbanks are providing leasing services to fill the gap in credit available to small to medium-sized enterprises. In the future, this could have a strong signaling effect, encouraging banks to start providing this financial service. ■



Thierry Buchs

Photo: Thierry Buchs

IMF deepens dialogue with Central American legislators

Domestic support is essential to the successful implementation and maintenance of sound macroeconomic policies and structural reforms. But how do governments convince citizens of longer-term benefits when short-term sacrifices are involved? Legislators and journalists from six Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama, plus the Dominican Republic—joined IMF officials on May 18–20 to discuss the region’s policy priorities and the role legislatures and the media play in shaping public debate and in building understanding of the trade-offs that policymakers confront. Also on the agenda was the importance of greater regional integration and cooperation to Central America’s ability to compete successfully in the global economy.

The discussions—structured around twin seminars in San Jose, Costa Rica—broke new ground by bringing together lawmakers who hold key positions on finance, economic, and banking committees, and who approve budgets and legislation on taxation, trade, and banking matters.

IMF Deputy Managing Director Agustín Carstens explained that the institution is keenly aware of legislators’ crucial responsibilities in passing budgets and advancing economic reforms, which is why it is so important that “the IMF knows your views.” Carstens also noted that poverty reduction strategies, to be successful, need to be designed by the countries themselves and must reflect a broad consensus across society. He saw a two-way street in which “as the people’s representatives, legislators have an important part to play in formulating these strategies and in building consensus for reforms.” And, the IMF seeks robust and constructive relationships with policymakers, legislators, and other stakeholders to “better tailor our advice and assistance to the most pressing needs of the countries,” Carstens said.

Earlier communication, and more of it

Legislators expressed support for greater and earlier communication with the IMF. Topmost among their concerns were economic growth, poverty and social conditions, debt, the budget process, and the quality of expenditures. They stressed their own need to develop greater technical capacity, the potential benefits of regional integration, and the importance of promoting transparency and fighting corruption. They also raised the issue of equal treatment of IMF member countries and wanted to know what the IMF says to the United States about its fiscal deficits.

Several legislators encouraged the IMF to intensify its outreach efforts with national legislatures to explain, in accessible language, the organization’s activities and bring key political forces into the policy formulation process at an early stage. Legislators explained that they had had very different levels of contact with the IMF. While some had recent contacts with IMF mission teams during country visits, one legislator declared that in 12 years on the finance committee, this was his first encounter with IMF officials.

As one legislator put it: “At the end of the day, almost everything ends up in Congress. I have always thought the IMF was missing a step by not explaining itself, so this is a good step.” Another noted that lawmakers have an important role in promoting structural reforms, though “Congress doesn’t participate in negotiations to design economic programs.” IMF officials agreed that legislators need to be part of the consultation process and explained that missions have been intensifying their dialogue with legislators. Carstens recognized that this was a complex issue, adding that country negotiations must be held primarily with the central bank and the executive branch, “which should be the nexus with the legislative branch.”

Seminar participants broadly agreed there has been significant progress in transparency in both the IMF’s own operations and those of governments and central banks. The journalists seconded an observation by Markus Rodlauer of the IMF’s Western Hemisphere Department that transparency and communication are now commonly viewed as an integral part of designing and implementing policies, and the media “play a critical role in the process of consensus building, policy design, and policy implementation in your countries.” Governments, the IMF, and the media, he added, “need each other more than ever before.”



Participating from the IMF were (from left) Moises Schwartz (Executive Director), Jesus Seade (Fiscal Affairs Department), Olav Gronlie (Western Hemisphere Department), and Adolfo Barajas (Institute).

Meeting the challenges ahead

Seminar participants agreed broadly on the main economic policy challenges confronting Central America in its quest for sustained rapid growth and poverty reduction. Legislators placed particular stress on strengthening national budgets and making them more responsive to development and social priorities, improving financial systems and enhancing the investment climate. They wondered, however, why some economies were stagnating even after “doing all the IMF wanted.” They also asked what lessons the IMF had learned and whether the programs of the 21st century should present new approaches.

Other voices from Latin America lent comparative perspectives. Beatriz Paredes (former member of Congress and State Governor in Mexico), Roberto Junguito (former Finance Minister of Colombia and IMF Alternate Executive Director), and Alejandro Atchugarry (former Finance Minister and Senator of Uruguay) all underscored the importance of national ownership of economic policy programs; the need for longer-term strategies that are supported by a broad domestic consensus and resilient through political cycles; and the need to consult with all major stakeholders.

Paredes called for Latin America itself to generate a “new dynamic” with “greater rationalization and efficiency in its economies.” She appealed for countries to look more closely at how they are spending public money because “when people don’t see that taxes are well spent, they are reluctant to pay.” Some legislators agreed that poor-quality spending and “acrobatics to hide it” are a major worry, as is growing debt without more to show for it. One legislator suggested creating a mechanism for legislative committees to consult on common problems related to budgets, transparency, and expenditure quality.

IMF speakers stressed that the region’s main economic challenges are to enhance regional coordination; continue fiscal reforms, thus reversing the rise of debt-to-GDP ratios in most countries; fortify financial systems; strengthen the overall investment and business climate; and improve transparency and governance. Carstens underscored the uniqueness of each

country’s circumstances, noting that the IMF’s advice takes full account of these factors. “What is encouraging,” he added, “is that support and consensus have already been growing throughout the region for fundamental economic principles such as macro discipline and low inflation.”

Moises Schwartz, IMF Executive Director, summarized the Executive Board’s messages for Central America over the past decade, concluding that fiscal reforms are still at

the top of the agenda. In offering insights to his work representing a constituency that includes five Central American countries, Schwartz reminded participants that “all countries—large, medium, or small—have the same right to voice their views” in the IMF’s Executive Board.

Regional integration and CAFTA-DR

Prefacing a discussion of regional integration, Alfred Schipke of the IMF’s Western Hemisphere Department noted that in the financial sector, integration is already well under way, with intraregional banking activity expanding rapidly—increasingly requiring a regional approach to supervision and regulation so that risks and possible cross-border contagion can be monitored and avoided.

The IMF’s work with Central America, he explained, occurs at both the country and regional levels. Annual regional conferences are organized for finance ministers, central bank governors, and bank superintendents, and the IMF recently cosponsored, with Guatemala, a seminar on tax coordination. The IMF has produced analytical studies on exchange rate regimes in the region, financial system integration, and the macroeconomic and fiscal consequences of the free trade agreement proposed with the United States.

That agreement—the Central American and Dominican Republic Free Trade Agreement (CAFTA-DR)—would, Carstens said, allow the region to compete more successfully in the global economy. CAFTA-DR has rightly raised the region’s expectations, he said, urging expeditious ratification in those countries, including the United States, where it is still pending. ■



Beatriz Paredes of Mexico stressed national ownership of economic policy programs.



Minou Tavárez, from the Dominican Republic’s Liberation Party, was among the lawmakers attending the seminar.

Learning by design: assessing IMF-supported programs

What do IMF-supported programs aim to achieve? How are they formulated? How should their success be judged? And have they been successful? At the behest of the IMF's Executive Board, staff took a detailed look at experience with IMF-supported programs during 1995–2000. The resulting papers suggest two broad challenges for future program design. In *low-income countries*, the key will be to build on the success to date in achieving macroeconomic stability and higher sustained output growth rates while still maintaining external viability and avoiding future debt-servicing problems. In *middle-income countries*, especially during capital account crises, programs need to restore market confidence rapidly to help avoid excessively abrupt—and economically disruptive—adjustment of the current account.

The past 15 years have seen important developments in the challenges facing member countries, and therefore in the objectives of the economic programs for which national authorities have sought the IMF's support. Yet the very responsiveness of the IMF to these evolving needs has inevitably complicated program design and the evaluation of program success. As a first step in this review, staff classified programs by their main purposes. Despite variations in details, most programs could be placed in one of four broad categories:

- *Unsustainable current account deficits.* In classic instances of external adjustment, countries having difficulty financing their current account deficit commit to reducing it to a sustainable level, while IMF financing helps the country reconstitute its reserves. This attenuates the necessary adjustment and allows for part of it to come through a positive supply response rather than through demand management alone.
- *Capital account crises.* When sizable capital outflows force an abrupt external adjustment and, typically, a collapse of the exchange rate and economic activity, monetary and fiscal policies are geared more toward restoring confidence and limiting the adverse effects on activity than to promoting external adjustment (since the withdrawal of private financing is, in effect, achieving this).
- *Transition economies and low-income countries.* Although there are many differences among them, these programs share a common emphasis on macroeconomic stabilization and structural transformation to enhance economic efficiency and promote sustained growth—while maintaining external viability.
- *Policy credibility and public debt sustainability.* Where external accounts are largely in balance, programs can nevertheless help lower interest rates and spreads, putting public-debt

dynamics on a more sustainable footing by enhancing the credibility of the authorities' policies.

What constitutes success?

All countries should emerge from their IMF-supported programs with sustainable external positions. External adjustment thus affords the first measure of success. Over the short term, however, such adjustment can take strikingly different courses. A country with little recourse to financing can rapidly reduce its external indebtedness and lower the likelihood of a future crisis, but too abrupt an adjustment may take a significant toll on economic activity, employment, and the exchange rate. By contrast, a country with access to additional financing may postpone the necessary adjustment but later face a crisis that forces a much more painful adjustment. The key challenge is to strike the proper balance between adjustment and financing.

Medium-term debt sustainability provides a useful metric for determining that balance, on the grounds that countries should adjust sufficiently—but by no more than required—to ensure that their external debt position becomes sustainable. The IMF provides sufficient direct financing, or helps generate it indirectly through catalytic effects, to enable the member country to adjust at the appropriate pace, while its advice helps the member design a policy program that minimizes the economic and social disruption.

Against these criteria, how has external adjustment fared? The findings suggest a sharp demarcation between the experience of middle- and low-income countries. In *middle-income countries*, programs have generally targeted and achieved current account adjustments in line with debt sustainability considerations. But in a number of cases—especially, though not exclusively, capital account crises—large capital outflows meant that external adjustment was more abrupt than programmed or larger than would be indicated by debt sustainability considerations. This did not reflect tight macroeconomic policies—fiscal consolidation generally fell short of program targets—but rather a lack of financing owing to private capital outflows. At the same time, there is evidence that IMF-supported programs helped achieve improvements in the current account at lower cost in terms of lost output growth, perhaps because of more efficient policies.

For the *low-income countries*, however, the adjustment story is almost diametrically opposite: Programs generally did not target sufficient external adjustment to ensure debt sustainability, and the actual improvement in the current account balance was even less than programmed. These programs, therefore, did

not aim at, or achieve, external viability through external adjustment but instead implicitly relied on debt relief. Indeed, the Heavily Indebted Poor Country (HIPC) and Enhanced HIPC initiatives were instituted during this period (in 1996 and 1999, respectively), but current account deficits—programmed and actual—would have been too large to stabilize debt ratios even following this debt relief.

External viability, of course, is just one program objective. Programs may also seek to reduce inflation and stabilize the economy, raise output growth, and reduce poverty. *Middle-income countries* with IMF-supported programs saw durable reductions in inflation and a dip in real GDP growth during the program period, followed by a recovery of growth rates but not an increase relative to preprogram performance. By contrast, programs in *low-income countries* saw sustained improvements in growth performance during and following the program, driven by a combination of better macroeconomic policies (lower inflation and smaller after-grants fiscal deficits) and a more benign external environment.

The findings leave two important sets of questions. For the *middle-income countries*, especially during capital account crises, the key question is how to engender a faster return of confidence and private capital flows, bringing external adjustment better into line with debt sustainability considerations and avoiding excessively abrupt and disruptive corrections of the current account balance. Would this require greater IMF financing? Capital controls? A stronger policy response? Or is it unavoidable, with prevention the only cure?

For programs in *low-income countries*, the key challenge will be to continue to improve growth performance—including through lower inflation and smaller after-grants fiscal deficits, but also through structural policies—while maintaining external viability. Will this require further debt relief? A larger proportion of financing in the form of grants rather than loans? Or a fundamental rethinking of program design?

Frameworks and formulations

In formulating advice for national authorities on program design, IMF country teams use a wide variety of analytical methods. This eclectic approach allows staff to tailor program design to country circumstances. For the short-run macroeconomic framework, this approach worked surprisingly well: with the exception of capital account crises, neither inflation nor growth projections exhibit systematic biases. At longer

horizons, however, growth projections have optimistic biases, especially in low-income countries. One notable consequence was overly rosy debt projections, which new debt sustainability templates are intended to help address.

Challenges remain, however, in predicting and understanding the implications for policy effectiveness of large capital outflows in capital account crises, and in devising better models of medium-term growth, including to improve debt-sustainability assessments.

Policy content

In tackling the question of policy content, the staff asked three questions: Were policies geared toward achieving program objectives? Were they carried out? What was the outcome?

Macroeconomic stabilization and external adjustment are usually cornerstones of IMF-supported programs, so it is, perhaps, surprising that the exchange rate regime is no more likely to be altered at the outset of a program than at other times, and upfront devaluations are extremely rare.

Nevertheless, there is some tendency of *middle-income countries* embarking on disinflation efforts to adopt an exchange rate peg, while *low-income countries* generally attempt disinflations under floating regimes.

Success rates under the two approaches were virtually identical. What appears to differentiate success from failure is whether the programmed fiscal consolidation was achieved. External adjustment was easier under floating exchange rate regimes, in the sense that a given improvement in the current account balance was associated with a smaller reduction in output growth, though the effect

is not quantitatively large. While countries with pegged exchange rate regimes are thought to be more prone to excessive foreign currency borrowing—and therefore suffer sharper external adjustment when pegs collapse—the association did not hold generally, although it may have happened in some capital account crises.

As for monetary policies, programs generally targeted a reduction in broad money growth rates and in inflation rates. The targeted monetary tightening was greater the larger the programmed reduction in inflation and the improvement in the current account balance, and smaller the larger the initial output gap and when the exchange rate was floating. Programs did succeed in lowering inflation, though not always by as much as was targeted, in part because of broad money overruns. Notably, it does not seem to matter whether

Challenges remain . . . in predicting and understanding the implications for policy effectiveness of large capital outflows in capital account crises, and in devising better models of medium-term growth.

these overruns derived from balance of payments inflows or domestic credit creation, which raises concerns about the need to sterilize large donor inflows or capital inflows if inflation targets are to be achieved. And while monetary tightening in programs was typical, there is no evidence that this slowed output growth.

Depending on initial levels of government expenditure, the fiscal deficit, and the programmed improvement in the current account balance, programs on average envisaged a fiscal tightening of around 1–2 percent of GDP over a two-year period; controlling for these initial conditions, programs in *low-income countries* targeted about 1 percent of GDP less fiscal adjustment than *middle-income country* programs. While the fiscal tightening in the initial program year was generally achieved, there tended to be important slippages by the following year, particularly when growth turned out to be weaker than expected, and the envisaged adjustment was primarily on the revenue side or was particularly large. In turn, fiscal slippages contributed to failures at disinflation and to worse public-debt dynamics—though the largest source of errors in projections of public-debt dynamics came from valuation changes on foreign-currency-denominated debt and from the fiscal costs of banking crises.

Fiscal tightening in IMF-supported programs is often controversial because of the possible contractionary effect on the economy, but the empirical evidence does not suggest that fiscal consolidation led to slower output growth. On the contrary, smaller budget deficits were associated with faster output growth—most likely because of the boost to confidence and lower interest rates, and greater availability of banking system credit for the private sector.

Finally, IMF-supported programs incorporate structural measures to underpin macroeconomic adjustment, enhance economic efficiency, and reduce vulnerability to future crises. Programs in transition and low-income countries have a relatively larger proportion of efficiency-enhancing reforms, while programs in middle-income countries, in particular during capital account crises, have a relatively larger share of measures directed at reducing vulnerabilities, especially in the financial sector. Assessing the effects of individual measures on program goals is difficult, not least because structural measures tend to be difficult to quantify. Nonetheless, there is a statistically significant positive association between achieving fiscal adjustment and the number of structural fiscal

measures in the program, and between higher output growth and the number of efficiency-enhancing reforms.

Overall, the results suggest broad alignment between program goals and various macroeconomic policies and structural reforms. By the same token, this also means that policy slippages were reflected in program targets being missed.

More work to be done

These papers are spurring further analytical work. Among the topics are how sound macroeconomic policies and sustained growth can be fostered while ensuring debt sustainability. For programs in *middle-income countries*, analysis is focusing on how to enhance the catalytic response of financial markets—especially to help *prevent* crises by coupling a sufficiently vigorous policy response with IMF financing at times of heightened vulnerability.

The present study also suggests ways of improving programs, including a more clearly defined role for medium-term debt dynamics in program design; better modeling of medium-term output growth; and, for emerging market countries, a better understanding of the nexus of forces in the financial, public, and external sectors in driving capital flows and crisis dynamics. Beyond these general lessons, there are issues in the use of specific policy instruments, including greater scrutiny of the consistency of the exchange rate regime with program objectives and other macroeconomic policies; the need to sterilize large donor or capital inflows in the monetary program; greater emphasis on sustaining fiscal adjustment efforts and the need to design the fiscal program accordingly; and closer alignment of structural measures with program goals.

These would not be revolutionary changes, but they do represent shifts in emphasis that, if undertaken, would contribute to better designed and better implemented IMF-supported programs, ultimately leading to better economic outcomes. ■

Atish Ghosh
IMF Policy Development and Review Department

The Design of IMF-Supported Programs was prepared by a staff team headed by Atish Ghosh and comprising Charis Christofides, Jun Kim, Laura Papi, Uma Ramakrishnan, Alun Thomas, and Juan Zaldendo, assisted by Barbara Dabrowska, Siba Das, Olivia Carolin, and Neri Gomes, under the supervision of G. Russell Kincaid and Mark Allen. The papers are available on the IMF website (www.imf.org/external/np/sec/pn/2005/pn0516.htm).

Stand-By, EFF, and PRGF arrangements as of May 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(million SDRs)				
Stand-By				
Argentina	September 20, 2003	September 19, 2006	8,981.00	4,810.00
Bolivia	April 2, 2003	March 31, 2006	171.50	60.00
Bulgaria	August 6, 2004	September 5, 2006	100.00	100.00
Colombia	May 2, 2005	November 2, 2006	405.00	405.00
Croatia	August 4, 2004	April 3, 2006	97.00	97.00
Dominican Republic	January 31, 2005	May 31, 2007	437.80	385.26
Gabon	May 28, 2004	June 30, 2005	69.44	27.78
Paraguay	December 15, 2003	September 30, 2005	50.00	50.00
Peru	June 9, 2004	August 16, 2006	287.28	287.28
Romania	July 7, 2004	July 6, 2006	250.00	250.00
Turkey	May 11, 2005	May 10, 2008	6,662.04	6,106.87
Total			17,511.06	12,579.19
EFF				
Serbia and Montenegro	May 14, 2002	December 31, 2005	650.00	187.50
Sri Lanka	April 18, 2003	April 17, 2006	144.40	123.73
Total			794.40	311.23
PRGF				
Albania	June 21, 2002	November 20, 2005	28.00	4.00
Armenia	May 25, 2005	May 24, 2008	23.00	23.00
Azerbaijan	July 6, 2001	July 4, 2005	67.58	12.87
Bangladesh	June 20, 2003	June 19, 2006	400.33	251.83
Burkina Faso	June 11, 2003	August 15, 2006	24.08	10.32
Burundi	January 23, 2004	January 22, 2007	69.30	35.75
Cape Verde	April 10, 2002	July 31, 2005	8.64	1.26
Chad	February 16, 2005	February 15, 2008	25.20	21.00
Congo, Democratic Republic of	June 12, 2002	June 11, 2005	580.00	53.23
Congo, Republic of	December 6, 2004	December 5, 2007	54.99	47.13
Dominica	December 29, 2003	December 28, 2006	7.69	3.48
Gambia, The	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	June 4, 2004	June 3, 2007	98.00	70.00
Ghana	May 9, 2003	May 8, 2006	184.50	105.45
Guyana	September 20, 2002	September 12, 2006	54.55	27.79
Honduras	February 27, 2004	February 26, 2007	71.20	40.69
Kenya	November 21, 2003	November 20, 2006	225.00	150.00
Kyrgyz Republic	March 15, 2005	March 14, 2008	8.88	7.62
Mali	June 23, 2004	June 22, 2007	9.33	6.67
Mongolia	September 28, 2001	July 31, 2005	28.49	16.28
Mozambique	July 6, 2004	July 5, 2007	11.36	8.12
Nepal	November 19, 2003	November 18, 2006	49.91	35.65
Nicaragua	December 13, 2002	December 12, 2005	97.50	41.78
Niger	January 31, 2005	January 30, 2008	6.58	5.64
Rwanda	August 12, 2002	February 11, 2006	4.00	1.14
Senegal	April 28, 2003	April 27, 2006	24.27	13.86
Sierra Leone	September 26, 2001	June 25, 2005	130.84	14.00
Sri Lanka	April 18, 2003	April 17, 2006	269.00	230.61
Tajikistan	December 11, 2002	December 10, 2005	65.00	19.60
Tanzania	August 16, 2003	August 15, 2006	19.60	8.40
Uganda	September 13, 2002	September 12, 2005	13.50	4.00
Zambia	June 16, 2004	June 15, 2007	220.10	49.52
Total			2,900.63	1,338.03

EFF = Extended Fund Facility.

PRGF = Poverty Reduction and Growth Facility.

Figures may not add to totals owing to rounding.

Data: IMF Finance Department

Five crucial tasks for new World Bank president



European Pressphoto Agency

On his first trip to Africa as World Bank chief, Paul Wolfowitz met in Nigeria with (center) Ngozi Okonjo-Iweala (Minister of Finance) and Oby Ezekwesili (Special Assistant to the President).

Incoming World Bank President Paul Wolfowitz faces five crucial tasks if he is to successfully reshape the development institution to address the problems of the 21st century, according to a June 1 report by the Washington-based Center for Global Development. These include (1) revitalizing the World Bank's role in China, India, and the middle-income countries; (2) bringing new discipline and greater differentiation to low-income country operations by providing more financing to better-governed countries and suspending financing to countries where progress has stalled; (3) obtaining an explicit mandate, adequate grant instruments, and a special governance arrangement for the Bank's work on global public goods; (4) taking leadership to ensure truly independent evaluation of selected Bank and other aid-supported programs; and (5) pushing member governments to make the Bank's governance more representative and thus more legitimate.

The report, "The Hardest Job in the World," was prepared by a group of 20 well-known development experts headed by Nancy Birdsall and Devesh Kapur. It underlines that borrowing from the Bank by middle-income countries, as well as China and India, has dropped dramatically, and it pins the blame on the high "hassle costs" of obtaining financing through the World Bank. The Meltzer Commission, in a report to the U.S. Congress in 2000, recommended that the Bank stop lending to emerging market and middle-income countries that

can readily access private capital markets. But the group's report says the fall in lending to these countries could pose a number of risks to the Bank, including reduced income from lending operations and increased costs of borrowing because of heightened portfolio risk. It recommends that the Bank make it easier for middle-income countries to borrow by creating loan facilities that could be accessed more quickly.

The report suggests greater differentiation in dealings with low-income countries. Well-run countries should get large amounts of financing, with commitments for five years or more. Countries with annual per capita incomes under a certain threshold (possibly \$500) should get help mostly through grants. In poorly governed countries, the Bank should remain engaged by providing carefully targeted technical assistance but should not generally provide financing to the government.

The report also calls for a new trust fund to support the Bank's work in promoting global public goods, particularly in agriculture, health, and the environment. It recommends giving borrowing countries a greater say on the Bank's executive board. And it calls for an external, independent aid evaluation mechanism.

Wolfowitz appears to agree with at least some of the advice. He has promised to make the Bank more attractive to fast-growing economies like India and China, where many people remain poor despite booming economic growth, and has singled out corruption as a major problem in development. Identifying Africa as his top priority, he has also signaled that he would put renewed emphasis on developing infrastructure in poor countries.

"Development is about a lot more than pouring concrete," he has acknowledged, "but on the other hand, it's pretty hard to have development without roads and electricity and fundamental infrastructure, so it's got to be part of the picture." ■

Jeremy Clift

IMF External Relations Department

The Hardest Job in the World: Five Crucial Tasks for the New President of the World Bank is available at www.cgdev.org/docs/HardestJobintheWorld.pdf.

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