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In this issue

Farewell interview

Aninat stresses Africa's need for capacity building

IMF Deputy Managing Director Eduardo Aninat leaves the IMF on July 1 to return to Chile, where he was Finance Minister from 1994–1999. Aninat joined the IMF's four-member management team in December 1999, with broad responsibilities in running the IMF—including overseeing the launching of a major technical assistance initiative in Africa. He talks with Laura Wallace about the late May opening of the West Africa Regional Technical Assistance Center (West AFRITAC) in Mali (see article below), seven months after the opening of a similar center in East Africa.

The Prime Minister of Mali, Ahmed Mohamed Ag Hamani, meets with IMF Deputy Managing Director Eduardo Aninat.

IMF SURVEY: Why is capacity building so critical?

ANINAT: In the IMF's long engagement in Africa, the sustainability of institutions has been a crucial factor in explaining differences in growth rates and the quality of growth across countries. We have seen time and again the need for strengthening central banks, treasuries, finance ministries, and other institutions—such as the legislative and the judicial branches—to enhance transparency, ownership, the continuity of policies, and the rule of law. Experience has shown that even the best designed and the most realistic set of reform measures can be poorly implemented or monitored for lack of capacity. *(Please turn to the following page)*

West AFRITAC opening

For Africa's new technical assistance centers, ownership and accountability will be critical

On May 29, the Malian government and the IMF hosted an inaugural ceremony in Bamako, Mali, for the West Africa Regional Technical Assistance Center—West AFRITAC. The new center is designed to strengthen the effectiveness of IMF technical assistance and build institutional capacity in the center's 10 participating countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea Bissau, Mali, Mauritania, Niger, Senegal, and Togo. The new center, like its sister organization based in Dar es Salaam, Tanzania, is intended to further the goals of the New Partnership for African Development (NEPAD) and stresses country involvement. West AFRITAC has already identified its first set of *(Please turn to page 188)*

From left, Idrissa Traoré (National Director of the BCEAO, Mali), Bassary Touré (Minister of Finance of Mali), Charles Konan Banny (Governor of the BCEAO), and Norbert Toé (Coordinator of the West AFRITAC).

Aninat on Africa

(Continued from front page) *IMF SURVEY:* Why do you feel that this particular initiative will be effective, given the troubled history of technical assistance in Africa?

ANINAT: Three reasons. First, we will have our people located in the field in a sort of hub-and-spoke mechanism. This will enable us to build a partnership with the beneficiary countries and the donors that sit on the steering committees of the centers, and it will allow us to respond to countries' technical assistance needs in a much more flexible, timely, and realistic way. Second, the initiative complements the technical assistance being delivered from headquarters, helping us to better tailor our overall technical assistance. Third, it responds to urgent calls from African leaders—a call that was reiterated when the African leaders launched their New Partnership for Africa Development [NEPAD] initiative.

Ambassadors and IMF Executive Directors gather at a dinner to honor Eduardo Aninat for his work on behalf of Africa. Aninat thanked Executive Directors and country authorities for their support to him over many years as Deputy Managing Director.

IMF SURVEY: You've indicated that if the operations of the two centers are successful, additional centers—possibly one to three more—could be opened. What criteria will be used to assess success, and have all the partners agreed on these criteria?

ANINAT: The criteria have been thoroughly discussed with both the African leaders and the 13 donors. The centers will be evaluated by outside experts after approximately 18 months of operation. The evaluation will look at how well the centers have met their original objectives, in particular, their end results and value added. We expect an evaluation geared to results and not process. This is the novel part.

IMF SURVEY: In your informal talks with senior country officials at the two inaugurations, what specific concerns have they raised about the operation of these centers?

ANINAT: One concern—raised in fact by the Prime Minister of Niger—is that the centers don't deprive individual governments of the public sector experts needed in their own capitals. I have assured the leaders of all the beneficiary countries that this won't occur; our goal is to add to, not subtract from, the existing thin layer of experts. Another concern is that we share with them, ahead of time, assessments of specific projects. This concern is promising, because it reveals a results-oriented approach.

IMF SURVEY: What about donor concerns?

ANINAT: The European donors—and I have to thank them for being the first to support the AFRITACs, both in principle and financially—have asked that we integrate our efforts with those of other regional technical assistance delivery agencies. We've told them that there's little risk of our not doing so because we've been heavily consulting with two of the agencies, the African Development Bank and the ACBF [African Capacity Building Foundation]. In fact, this is a key reason why I wanted the IMF to join the ACBF in 2001.

IMF SURVEY: East AFRITAC has been involved in more than 20 capacity-building projects since it opened in October 2002. How is it doing?

ANINAT: It is doing extremely well, and here, I have to thank the IMF's John Crotty, who has led the center. The projects range from decentralization of public finances to issues about tax mobilization and custom duties collections, and public sector debt management. I expect similar results from Norbert Toé, the newly appointed coordinator for West AFRITAC, who has the advantage of being an African and a former IMF Resident Representative in Africa for many years.

IMF SURVEY: What specific mechanism or structure is now in place to ensure accountability and good governance of the two centers?

ANINAT: First, both the donors and high-level participating country officials belong to the steering committee, which is presided over by a finance minister or central bank governor of one of the beneficiary countries. This means that all sides are involved at the top level, with the IMF ensuring ownership. Second, the IMF coordinates the project by getting feedback from the steering committee, the centers, and its Washington staff.

IMF SURVEY: Some critics view the creation of these centers as a way for the Bretton Woods institutions to help finance ministries and central banks consolidate their powers to the detriment of other ministries—especially social ministries—that don't benefit from this level and quality of capacity-building assistance. These critics are more in favor of the UN playing a role in this area. What is your reaction?

ANINAT: It's a little absurd to view this as the IMF becoming a hidden partner of the finance ministry or the central bank and leading to the potential loss of status of the other ministries, such as the social, administrative, or infrastructure ministries. This isn't the case. The IMF plays only a secondary role. We will deploy technical assistance only when a government requests it, and we will deploy it in broad areas that help the entire government and country. For example, we are helping to build statistical databases that include social indicators that are key for ministries of health and education. These ministries, in turn, are crucial beneficiaries of the international community's initiatives to reduce poverty and debt.

IMF SURVEY: Civil society organizations say their need for capacity building is even greater than that of the official sector. Since these groups will have to work closely with governments on poverty issues, should AFRITAC centers also help them?

ANINAT: Given Africa's enormous problems on the poverty, health, and education fronts, it is clear that we, along with other institutions, can't confine ourselves to dealing solely with official governmental agencies. Of course, governments are our counterparts, but this doesn't preclude opening our seminars, technical assistance panels, and even specific projects to segments of civil society—as long as the governments themselves agree. In other words, the challenge is so big that we have to include all sectors, not subtract any sector.

IMF SURVEY: At the recent Group of Eight meeting in Evian, the leaders of the major world powers pledged to boost funding for AIDS. Is the IMF doing research on the ramifications of AIDS?

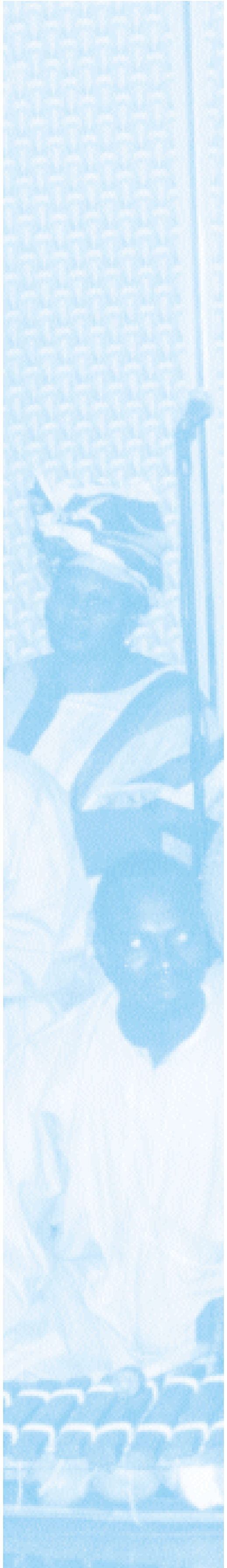
ANINAT: The IMF has been researching the impact of AIDS on governmental budgets and critical sectors, such as the public sector, which is losing a layer of civil servants in some countries, and mining. We haven't been blind or deaf to this issue; on the contrary, it is being increasingly incorporated in staff reports for our Executive Board and management.

I certainly applaud the Evian declaration on AIDS but, on a personal note, I'm getting fed up with declarations that call for new bureaucracies and extra funds, when existing funds haven't even been dispersed. That is why I made a point of visiting an AIDS center in Bamako, known as CESAC. There I met a courageous group of young nurses, medical personnel, and others who are undertaking an enormous job with very scarce resources. They gave me letters to give to [World Bank President] James Wolfensohn, which I did, in person, asking him to make the support of this AIDS center a high priority.

IMF SURVEY: Despite Group of Eight promises on AIDS, famine relief, and so on, there's a high level of distrust between African leaders and the Group of Eight. The Africans feel that past promises have come to naught, which is why they're calling for a new relationship based on trust and shared responsibility. Based on your extensive interactions with African leaders, what can be done to break this cycle of distrust?

ANINAT: I understand the African leaders' chagrin. But it might be more productive to focus on the

During his recent trip to Mali for the opening of the West Africa Regional Technical Assistance Center, Aninat made a point of visiting CESAC—an AIDS center in Bamako.



unprecedented convergence that is taking place in the international community on what needs to be done in Africa—as spelled out in the UN's Millennium Development Goals, the Monterrey Declaration, and the Johannesburg Declaration. Let's grasp what is firmly at hand and focus on desired outputs.

As for trust, I think the whole concept of globalization and accelerating growth for the good of the world relies on there being trust among the development partners. This means the developing countries need a new vision that steers away from seeing exploitation embedded in the concept of globalization. And the developed countries have to treat their developing counterparts as independent, sovereign entities that need to have their voices heard and be considered as full partners.

IMF Survey: Are you hopeful that Africa will reach the Millennium Development Goals?

Aninat: I'm always a optimist, so you have to discount somewhat what I say. Even so, it's the first time in 5 or 10 years that I see the bias tilting in favor of hope in the case of growth and development in Africa as a whole. Of course, the story for individual countries will vary enormously, some extremely shallow and sad, but others much more fruitful and optimistic. ■

West AFRITAC aims to foster synergies

(Continued from front page) *priorities: improved public expenditure and public debt management, enhanced customs and tax administration, strengthened supervision of microfinance institutions, and more robust economic statistics.*

African decisionmakers have a critical role to play in the newly created AFRITACs, and Mali's Prime Minister, Ahmed Mohamed Ag Hamani, highlighted both ownership and accountability in his remarks at the West AFRITAC opening. These centers, he reminded the gathering, are a welcome product of, and a complement to, the ambitious goals and new vision that NEPAD represents. Charles Konan Banny, the Governor of the Banque des Etats de l'Afrique de l'Ouest (BCEAO), also underscored the regional nature of the new center and the potential boost it can give to regional integration efforts.

In his remarks, IMF Deputy Managing Director Eduardo Aninat stressed how much the establishment of West AFRITAC has been the product of "close collaboration among many partners." He cited, in particular, the authorities in the center's member countries, the donors, the African Capacity Building Foundation, NEPAD, and the World Bank. Aninat expressed particular gratitude for Governor Banny's leadership and BCEAO's generous provision of excellent facilities for the center in Bamako.

The ceremony—which drew finance ministers, governors and national directors of central banks, and other senior officials from the participating countries; and representatives from bilateral and multilateral donors—celebrated the second regional technical assistance center to be opened in Africa. East AFRITAC was inaugurated in Dar es Salaam, Tanzania, at the end of October 2002, and currently serves six countries in East Africa (see *IMF Survey*, November 18, 2002, page 353).

Capacity building

The AFRITACs represent a significant IMF contribution to Africa's development. Under the IMF's Africa Capacity-Building Initiative, launched in mid-2002, the centers aim to strengthen IMF technical assistance delivery and follow-up, and thus actively contribute to institution building, better macroeconomic policy design and implementation, and local capacity development. The IMF has undertaken to increase its capacity-building assistance to African governments to promote sound, growth-oriented, and poverty-reducing policies in the framework of the countries' own Poverty Reduction Strategy Papers (PRSPs). Since the PRSPs have become the cornerstone for coordinating external assistance to developing countries that have adopted this approach, the centers, beyond providing technical assistance, will also have a clear role in helping coordinate technical assistance from bilateral and multilateral sources in the areas of the IMF's expertise.

Hitting the ground running

Before West AFRITAC ever opened its doors, authorities from its member countries, the IMF, and other donors had participated in a joint needs assessment that allowed them to concentrate their resources where they will be most needed. West AFRITAC is headed by an IMF staff member, who brings to his job a broad knowledge of African economic and social issues and an ability to tap a network of colleagues from the IMF's Office of Technical Assistance Management and other departments. Under his direction, six resident experts will provide specific assistance in the priority areas of

- *Public expenditure management.* The effective use of scarce public resources is of paramount importance in many developing countries, including

Participants at the launching of the West AFRITAC in Bamako, Mali, gather after the ceremony on May 29.

in Africa; the expert will assist the authorities in preparing national budgets, developing treasury systems, improving budget execution, and introducing satisfactory reporting systems.

• *Customs administration.* Beyond providing a major source of revenue in West Africa, customs administrations are also an important vehicle for regional integration in the context of ongoing efforts to harmonize tariff and trade practices—areas in which the expert will provide technical advice.

• *Tax administration.* Improving revenue collection is a critical component in providing resources for poverty alleviation. The expert will assist governments in making the best use of fiscal legislation and in managing revenue collection efforts effectively and equitably.

• *Supervision of microfinance institutions.* In recent years, important developments have taken place in this area throughout the region. An experienced advisor will help countries avoid costly mistakes, mismanagement, and public confidence crises.

• *Public debt management.* Monitoring public debt stocks and flows, both external and domestic, is a key part of achieving fiscal sustainability. In addition, many governments welcome assistance in issuing public bonds and notes to diversify their financing sources.

• *Multisector statistics.* Macroeconomic policy formulation and execution must be grounded in robust economic statistics, possibly in the framework of the IMF-sponsored General Data Dissemination System, which several of the beneficiary countries have adopted or are working toward adopting.

Having a team in the field—right where its assistance and advice are needed—is viewed as a key component of the expected value added of the center. The resident experts will be able to develop a local network of government officials and counterparts, and tap independent local experts to complement the center's assistance. Other local and regional assistance providers will be associated with the center's activities, which, it is hoped, will enhance local expertise and foster synergies.

Ownership and accountability

A strong sense of ownership and strict accountability will be key to the center's success. Ownership is being achieved in a number of ways. The government of Mali, in collaboration with the BCEAO, is contributing office space and local staff. The center is operating under the guidance of a Steering Committee, composed of representatives from each beneficiary country, as well as representatives of donor countries and agencies and the IMF. The committee reviews the work plan, prepared by the center's coordinator in collaboration with the recipient countries, and provides general guidance to the West AFRITAC team.

Accountability will be critical, too. An independent evaluation of both AFRITACs will be conducted after 18 months of operation. It will assess their usefulness and contribution to capacity building in Africa.

From left, Mario de Zamaróczy (IMF Office of Technical Assistance Management), Piroska Nagy (IMF African Department), and Jean-Claude Brou (BCEAO).

The Steering Committees of both centers have agreed that these assessments will likely be at two levels: an evaluation, probably on a sample basis, of the merits of individual projects; and an evaluation of the centers themselves, contrasting the effectiveness of this novel form of technical assistance with more traditional forms of delivery, for example, missions coming from IMF headquarters, long-term advisors stationed in the field, or peripatetic visits by experts.

Challenges ahead

As operations begin, there was broad agreement that in the years ahead, challenges would surely be mingled with opportunities. Aninat pointed to three such challenges:

• ***Sustaining the strong involvement of the center's participating countries in the IMF's Africa Capacity-Building Initiative in general and in the AFRITACs in particular.***

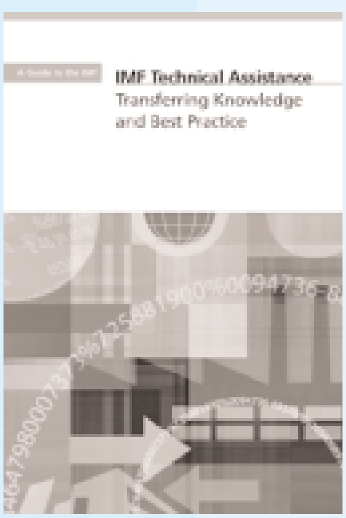
• ***Ensuring that donors and other technical assistance providers also maintain their involvement in the Initiative.*** The PRSP framework provides the natural support for this. In terms of which donor partner provides which assistance, comparative advantage should provide the guide. The centers can serve as clearinghouses for technical assistance needs and provision, thus avoiding overlap and inefficiency in environments where needs routinely exceed available resources.

• *Continuing to provide value added.* The centers' coordinators and resident experts need more than just excellent technical skills. They will be expected to coordinate their work with donors and country officials and think strategically about how best to help countries achieve their objectives given the centers' resources.

For many speakers at the inaugural ceremony, there was real hope that this new center would function as a center of excellence, boost cooperation in the region, and both draw on and develop local expertise. Aninat, for whom this was one of his last public duties before leaving the IMF, concluded by stressing that "this center, my African friends, is your vision, whose goals you determine yourselves. It is under your guidance and your ultimate responsibility. Our responsibility, together with the other donor partners, is to help and assist you achieve those goals. On behalf of the IMF, I am pledging here our continued commitment and support for this project. I wish all of you perseverance and success in this important endeavor." ■

Mario de Zamaróczy
IMF Office of Technical Assistance Management

Technical assistance is among the IMF's most important jobs



Want to know more about IMF technical assistance? A new illustrated pamphlet, *IMF Technical Assistance: Transferring Knowledge and Best Practice*, can help.

Apart from explaining what technical assistance is, how it is delivered, and who pays for it, the 56-page pamphlet provides case studies on capacity building in Africa, the fight against money laundering, helping central banks in Lithuania and Poland, aiding taxation reform, strengthening trade policy, and setting up treasuries in transition economies. The IMF's work in postconflict situations is highlighted with a first-person account of rebuilding economic institutions in Bosnia and Kosovo, as well as examples from Afghanistan and Timor-Leste. The pamphlet also explains how IMF Institute training programs complement other technical assistance work.

"Providing technical assistance to member countries—particularly developing countries and countries in transition—is among the IMF's most important jobs," says Eduardo Aninat, the IMF Deputy Managing Director who has been responsible for technical assistance. But it is not always the most high profile. "While the IMF's lending in support of policy programs in crisis countries captures the world's headlines," Aninat adds, "its technical assistance rarely does so, but it plays a vital role in laying foundations for stronger economies and for a better future for the people of many countries of the world."

This publication, part of the *A Guide to the International Monetary Fund* series, is aimed at the general public and is free. The English version, which has just been published, can be ordered from IMF Publication Services. Versions in French, Spanish, and Arabic will be available by mid-July and in Russian and Chinese by September.

Brady bonds retired

Köhler lauds Mexico's economic turnaround

On June 12 in Mexico City, IMF Managing Director Horst Köhler paid tribute to Mexico's political and economic achievements in recent years. His remarks, which are edited and excerpted here, were delivered on the occasion of the retirement of Mexico's Brady bonds. The full text of the address is available on the IMF's website (www.imf.org).

Today we celebrate Mexico's political and economic transformation over the past decade. Politically, Mexico has made a smooth transition to a vibrant multi-party democracy. Economically, Mexico has moved from deep debt and recurrent financial crisis to a position of growing economic leadership among emerging market countries.

Mexico's achievements

Mexico's remarkable economic turnaround since its crisis of 1994–95 well illustrates the rewards of sustained sound economic management. Mexico has entered a new era of macroeconomic stability. Inflation, which had reached 100 percent during the 1980s, is now firmly in the single-digit range—a tribute to nearly a decade of central bank independence. The current account deficit, which had averaged more than 7 percent of GDP in the run-up to the 1994–95 crisis, is now down to a sustainable 2–3 percent of GDP. International reserves have increased tenfold over the past decade to over $50 billion. Mexico has moved from being a debtor to being a creditor of the IMF.

Macroeconomic stability is yielding dividends for Mexico. Mexico has achieved investment grade status and foreign direct investment has risen sharply over the past decade. Most important, real GDP growth has averaged 4 percent since the mid-1990s—nearly twice as fast as during the 1980s—and well ahead of most other countries in the region. Public debt has been brought down. Social conditions are improving, especially in key indicators of life expectancy, infant mortality, and adult literacy. These achievements are the results of determined macroeconomic and structural policies that have reduced Mexico's vulnerabilities, increased the flexibility of response to external shocks, and raised productivity:

• *Improved fiscal policy and debt management have been critical to the recovery of confidence.* Fiscal spending has become more efficient and more transparent, with quasi-fiscal activities being firmly controlled, while transfers to the poor have encouraged human capital development. Mexico has been a leader in Latin America in developing its domestic debt market, and its framework for investor relations is a model for emerging market countries.

• *Mexico now has close to a decade of successful experience with a flexible exchange rate system.* Over this period, it has moved toward a full inflation-targeting regime whose credibility has been ensured by an independent central bank.

• *The financial system has made major strides following the liquidity and solvency problems of 1994–95.* Stability has been restored, and regulation and supervision have moved toward international best practice. Opening the financial system to foreign investment has greatly transformed its competitiveness.

• *Greater trade openness, led by entry into NAFTA [North American Free Trade Agreement] in 1994, has fostered the development of a strong traded sector.* The traded sector has matched Mexico's high level of financial market integration and spurred innovation and competition. Exports now comprise 30 percent of GDP—nearly double the share in 1985.

• *Institutional reforms in Mexico have contributed importantly to growth.* Privatization and deregulation are moving forward in key industries. A much

"Of the challenges that I see facing Mexico, raising growth and reducing poverty may be the most compelling, and intertwined."
—Horst Köhler

IMF Board confirms Carstens as new Deputy Managing Director

The IMF's Executive Board has confirmed Agustín Carstens' appointment as Deputy Managing Director—the first from Mexico. Carstens, who most recently served as Mexico's Deputy Secretary of Finance and had previously served as an IMF Executive Director, is expected to take up his new duties on August 1.

In his speech in Mexico City, IMF Managing Director Horst Köhler underscored his delight that Carstens has agreed to join the IMF's management team. "Not only will the IMF in Washington gain enormously from Agustín's appointment," Köhler said, "but his wise counsel and vast experience will—I am sure—be a very valuable resource to all of our membership."

stronger domestic bankruptcy framework is now in place. Mexico has also been in the vanguard of key initiatives to strengthen transparency, especially in the fiscal and financial areas.

Challenges ahead

Of the challenges that I see facing Mexico, raising growth and reducing poverty may be the most compelling, and intertwined. Growth has recently slowed after accelerating during the second half of the 1990s. Poverty remains high, despite its improving trend of recent years, with significant regional disparities. A clear lesson from other country experiences is the importance of maintaining high growth on a consistent basis to reduce poverty.

Slowing growth in Mexico reflects cyclical economic weakness in the United States, but also weakening stimuli from some of the contributors to growth in the 1990s—such as from NAFTA. Thus, Mexico faces the tasks of reducing its dependence on the U.S. economy, further strengthening its economic fundamentals, and searching out new investment opportunities, in order to maintain high growth on a consistent basis.

President [Vincente] Fox and his team have developed a well-focused medium-term reform agenda—the National Development Plan—to meet the growth challenge while further reducing macroeconomic and financial vulnerabilities. There are three key aspects of this growth agenda, based on the lessons from other emerging market countries.

Further reform and strengthening of the fiscal position within a prudent medium-term framework rightly lie at the heart of the agenda. Sustained further reductions in the broad fiscal deficit (the PSBR) are essential to address remaining financial vulnerabilities and entrench a virtuous cycle of improving public debt dynamics and rising confidence. Given still considerable infrastructure financing needs, tax reform in Mexico assumes high significance, especially in light of the relatively low share of non-oil revenues, and the scope to broaden the tax base and reduce evasion.

Another key plank is labor-market reform, designed to bring labor-market flexibility closer to that of Mexico's main trading partners. Greater flexibility would have enormous benefits for Mexico—helping to increase employment and productivity and bringing marginalized workers into the mainstream. Business and labor groups in Mexico have collaborated to develop draft legislation to bring about reforms that move in this direction, and its passage will be an important step to improving Mexico's competitiveness.

A third area for further structural reform is the institutional and business environment. This has several key dimensions also closely related to raising Mexico's competitiveness and growth prospects. In infrastructure, an open and supportive environment for private business would attract the investment needed to meet strong demand growth and efficiently exploit Mexico's abundant energy resources. Another dimension concerns the public enterprises; again, the lessons from other countries point to the potential that exists to achieve greater efficiencies by developing a robust and market-based governance structure for them.

A rapidly growing economy will greatly facilitate meeting the social objectives of the government. The next phase of social reforms involves giving even higher priority to education and human capital development, areas where key policy responsibilities increasingly lie with decentralized levels of government. This will require developing a strong consensus across regions for a clear policy framework for the reforms. The government's efforts at combating corruption will also help address social equity issues, as it is typically smaller businesses and the poor who bear the burden of corruption.

What the IMF can do

The IMF has been working on improving the international financial architecture and has increasingly sought to address a twofold challenge: preventing crises and helping resolve crises that do emerge as effectively as possible. In doing this, we have intensified our efforts to learn the lessons from recent crises.

In crisis prevention, Mexico's policy record provides an excellent example of how to correct macroeconomic and financial weaknesses that leave countries vulnerable to crisis. Thus, in our surveillance of national policies and international markets, we have emphasized the importance of making exchange rates more flexible; strengthening fiscal positions, institutions, and debt management; building efficient and diversified financial sectors with considerable operational autonomy for central banks; and increasing transparency of economic management—all areas where Mexico's record exemplifies better crisis proofing.

The IMF has also intensified efforts to strengthen the framework for resolving financial crises, particularly in restructuring sovereign debt. A crucial step in this direction has been the incorporation of collective action clauses—CACs—in emerging market bond issues. Here, too, Mexico has shown leadership. Earlier this year, Mexico was the first major emerging market country to issue government bonds under New York law with CACs. Since then, a number of

"Mexico has been a leader in Latin America in developing its domestic debt market, and its framework for investor relations is a model for emerging market countries."
—Horst Köhler

countries have followed Mexico's lead, and these clauses now look likely to become standard features of emerging market bond issues.

More broadly, just six months ago, the Latin American region was in a year of negative growth—the worst growth outcome in at least a decade. Since then, some of the downside risks in the world economy have receded, and Latin America as a whole is expected to recover in 2003, with growth rising to over 4 percent in 2004. Greater optimism about the region is being driven by rising political consensus for the strengthening of economic policies.

The IMF has worked closely and flexibly with many countries in the region to help put in place more sustainable macroeconomic frameworks and strengthened social safety nets. Markets have responded strongly to these stabilizing political and economic policy trends, and macroeconomic and financing pressures have begun to ease everywhere. The challenge now is to make the transition from emerging recovery to sustained growth with improved equity over the medium term. Mexico's economy accounts for fully a quarter of regional GDP, and its continued success will be crucial to increasing prosperity throughout Latin America. ■

Available on the web (www.imf.org)

Press Releases

03/84: IMF Managing Director's Visit to Mexico for Brady Bond Ceremony, June 12

03/85: IMF Completes Third Review of Stand-By Credit with Brazil; Approves $9.3 Billion Disbursement, June 13

03/86: IMF Completes Review Under Rwanda's PRGF Arrangement and Approves $0.810 Million Disbursement, June 16

03/87: IMF Completes Review Under Lesotho's PRGF Arrangement and Approves $4.98 Million Disbursement, June 17

03/88: IMF Completes Fifth Review of Pakistan's PRGF-Supported Program, Approves $123 Million Disbursement, June 18

03/89: IMF Completes First and Second Reviews of Nicaragua's PRGF-Supported Program, Approves $19.8 Million Disbursement, June 19

03/90: IMF Approves Nine-Month $120 Million Stand-By Arrangement for Guatemala, June 19

03/91: IMF Completes Second Review of Argentina's Stand-By Arrangement, Approves $320 Million Disbursement, June 20

03/92: IMF Approves $490 Million Three-Year PRGF Arrangement for Bangladesh, June 20

03/93: IMF Managing Director's Visit to Uruguay, June 23

03/94: IMF Completes Review Under Mozambique's PRGF Arrangement and Approves $11.84 Million Disbursement, June 23

03/95: IMF Completes Ninth Review of Indonesia Program, Approves $486 Million Disbursement, June 25

03/96: IMF Completes First Review Under Uganda's PRGF Arrangement and Approves $2.8 Million Disbursement, June 25

03/97: IMF Completes Second Review Under Cape Verde's PRGF Arrangement and Approves $1.7 Million Disbursement, June 26

03/98: IMF Executive Board Reviews Noncomplying Disbursement to Chad, June 26

Public Information Notices

03/68: IMF Concludes 2003 Article IV Consultation with Greece, June 11

03/69: IMF Executive Board Approves Administrative and Capital Budgets for FY 2004

03/70: IMF Concludes 2003 Article IV Consultation with the Kingdom of the Netherlands—Netherlands Antilles, June 13

03/71: IMF Executive Board Discusses Financial Soundness Indicators, June 13

03/72: IMF Concludes 2002 Article IV Consultation with Cape Verde, June 13

03/73: IMF Concludes 2003 Article IV Consultation with Ukraine, June 13

03/74: IMF Concludes 2003 Article IV Consultation with the Republic of Kazakhstan, June 17

03/75: IMF Concludes 2002 Article IV Consultation with Senegal, June 19

03/77: IMF Concludes 2003 Article IV Consultation with Papua New Guinea, June 25

Speeches

"Detecting and Preventing Financial Crises—Recent IMF Approaches," an address by IMF First Deputy Managing Director Anne O. Krueger, Bretton Woods Committee Annual Meeting, U.S. State Department, Washington D.C., June 12

"Mexico—Marking the Retirement of Its Brady Bonds," Horst Köhler, IMF Managing Director, Celebration at Los Pinos, Mexico City, June 12 (see page 191)

"A Cooperative Approach to Strengthening Global Growth," address by Eduardo Aninat, IMF Deputy Managing Director, given at the 54th Annual Meeting of the ifo Institute for Economic Research, Munich, Germany, June 24

Transcripts

Press Briefing by Thomas C. Dawson, Director, External Relations Department, IMF, June 12

Press Briefing by Thomas C. Dawson, Director, External Relations Department, IMF, June 26

IMF–World Bank workshop

Transforming the oil "curse" into a blessing

Fiscal spending has been highly correlated with the oil price, and, as a result, economies have gyrated through a series of boom-bust cycles.

For many oil-producing countries, favorable resource endowments have not led to rapid improvements in development indicators. Sub-Saharan African oil-exporting countries, in particular, have remained behind non-oil exporters on the continent, whether in terms of per capita GDP, infant mortality, life expectancy, or literacy rates. How can these countries reap greater benefits from their resources? African officials and IMF and World Bank staff came together in late April in Douala, Cameroon, to discuss possible answers.

What looked at first to be a windfall—massive amounts of petro dollars that became available in the 1970s—soon turned into something else altogether. Oil-exporting countries in sub-Saharan Africa have tended to be plagued by macroeconomic volatility, and their non-oil sectors have been unable to provide employment to growing populations. What happened? Much of the blame for this disappointing performance lies with economic policies that have failed to make rational, effective use of oil revenues and with oil resource management that has lacked transparency.

Offshore oil drilling in Angola. Increased transparency of oil finances can help ensure that oil wealth becomes fuel for Africa's development.

At a workshop organized jointly by the IMF's African Department and the World Bank's Africa Region and its Oil and Gas Policy Unit in Douala, Cameroon, at the end of April, high-level government and central bank officials and general managers of national oil companies from nine sub-Saharan African oil-producing economies (Angola, Cameroon, Chad, the Democratic Republic of Congo, the Republic of Congo, Equatorial Guinea, Gabon, Nigeria, and São Tomé and Príncipe) exchanged views on the distinctive challenges that their economies faced. They also discussed policy options in various areas, including fiscal matters, foreign exchange reserves and foreign debt management, exchange rate regimes, and governance.

Opening the workshop, Michel Meva'a M'Eboutou (Minister of Finance of Cameroon) underlined the importance of oil revenue management. Abdoulaye Bio-Tchané (IMF) and Paul Collier (World Bank) pointed out that a stocktaking of country experiences and academic research, as well as the discussion of country-specific policy approaches, could provide renewed impetus for reform in oil-exporting countries.

Policy challenges and choices

Policy makers in oil-exporting countries face challenges arising from three characteristics of oil revenue, noted Menachem Katz (IMF): oil revenue is more volatile than revenue from other export commodities (largely due to rapidly fluctuating international market conditions and the high fixed costs involved in exploration and production); oil revenue is a foreign exchange inflow—thus, its use can have large effects on macroeconomic stability (the development of the oil sector can lead to an appreciation in the country's real exchange rate, making its non-oil exports less competitive—which, in turn, results in a decrease in the output of the non-oil export sector—an effect termed "Dutch disease"); and oil is an exhaustible resource with a finite revenue stream. Katz proposed that the main aim of macroeconomic policies should be to stabilize expenditures and sterilize "excess" revenue inflows.

Fiscal policy. Sub-Saharan African oil-producing countries have generally not been able to smooth out fluctuations associated with volatile oil revenues. Fiscal spending has been highly correlated with the oil price, and, as a result, economies have gyrated through a series of boom-bust cycles. These have had detrimental effects on investment and growth because of heightened uncertainty about demand and the costs associated with reallocating factors of production.

Also, in a number of these countries, spending programs, initiated when oil prices were high, became entrenched. When oil prices fell, governments borrowed to sustain the programs. The result has been high levels of public debt in a number of countries. The challenge now, said Katz, is to stabilize budgetary expenditures and sterilize excess revenue inflows, taking into account medium- to long-term sustainability, thus providing an enabling environment for growth and poverty reduction.

Workshop participants broadly agreed that fiscal policy has yet to effectively adapt to the challenges facing oil-exporting countries. They supported in principle the use of medium-term fiscal rules and stabilization funds to avoid the "boom and bust" cycles that had characterized many oil economies during the past 30 years. Ulrich Bartsch (IMF) argued for the adoption of rule-based fiscal policy, and participants agreed that this would be important in limiting the negative impact of oil revenue volatility and ensuring transparency and credibility.

Participants also noted the usefulness of both a price-based rule and the non-oil budget balance as tools for formulating and monitoring fiscal policy. In addition, oil-exporting countries will need to increase absorptive capacity. This would strengthen the effective use of oil revenue, they said, acknowledging that it would be difficult to save oil windfalls when these countries faced such pressing needs to build their physical infrastructure and human capital.

Foreign exchange reserves and debt management. Turning to fiscal surpluses and the accumulation of assets, Rolando Ossowski (IMF) suggested some countries would benefit from channeling part of their oil revenue stream into income-earning assets. Flows from these assets could be more than sufficient, he said, to cover existing debt-service payments. Ossowski added that domestic investment opportunities in most African countries are limited by low capitalization levels or the nonexistence of financial markets.

As participants noted, there were crucial trade-offs between, on the one hand, investing in financial assets or repaying debt and, on the other, investing in infrastructure and human development. There were political difficulties, too, in generating a social consensus on the need to save oil revenues. Clearly, however, there were enormous needs in areas such as infrastructure and education, and a difficult, but critical, need to foster development of the non-oil sector.

Collier suggested that governments distribute some oil revenue directly to citizens, for example, by giving financial grants to schoolchildren. This prompted an animated discussion, with most participants voicing concern over their countries' limited capacity to implement such a scheme. Critics also cautioned that a direct handout scheme could become entrenched and thereby endanger fiscal sustainability when oil revenue declined.

Exchange rate policy. Why should exchange rate issues be a particular worry? Milan Cuc (IMF) pointed out that the conversion of dollar earnings from oil exports into domestic currency for the consumption of domestic goods puts upward pressure on the domestic currency. This can lead to an appre-

Domestic investment opportunities in most African countries are limited by low capitalization levels or the nonexistence of financial markets.

—Rolando Ossowski

Managing oil revenues: international oil companies can help

Do international oil companies really have a stake in the economic and political well-being of the countries in which they operate? In the current global climate, proper management of oil revenues, good governance, and transparency matter for the host country, but they typically have huge implications, too, for corporate reputations and operations.

Clearly, a host country beset with such problems as corruption or environmental degradation, risks seeing its credit rating downgraded and its cost of borrowing in international capital markets rising. But a corporation's association with political regimes that do not manage their countries' resources well, have a reputation for corruption, are plagued with civil unrest, and are indifferent to environmental degradation can damage its image and carry real costs in terms of relations with both investors and customers.

A recent paper by Menachem Katz and Ulrich Bartsch of the IMF's African Department—presented by Katz at the West and Central Africa Oil and Gas 2003 conference in Houston, Texas, in early June—suggests that countries and companies have much to gain by joining forces to increase transparency and improve governance. What can companies do? The authors suggest several key steps, including

- designing simpler contracts during licensing negotiations. Many production-sharing agreements contain overly complicated formulas that allow only a small group of specialists—often lacking in sub-Saharan African countries—to calculate payments due to government;
- supporting international transparency initiatives, such as the "Publish What You Pay" campaign initiated by George Soros and the "Extractive Industries Transparency Initiative" of U.K. Prime Minister Tony Blair; and
- directly supporting host countries through training and technical assistance.

With greater efforts, oil revenues could be the "blessing" all of these countries had originally hoped for.

ciation of the real exchange rate, which, in turn, weakens a country's export competitiveness. Policy makers then face a dilemma: they can let the nominal exchange rate appreciate and risk a loss of competitiveness for their non-oil sector, or the central banks can buy up the foreign exchange earned from oil exports and increase foreign reserves to avoid a nominal appreciation (under a fixed exchange rate regime, the central bank is committed to doing just that). However, this creates excess liquidity in domestic currency and increased spending will still result in real exchange rate appreciation.

While sterilized intervention in the foreign exchange market may prevent undue appreciation of the real effective exchange rate, tight fiscal policies and a prudent use of oil revenues may have a more lasting impact. There was widespread agreement on the importance of well-adapted fiscal and monetary policies to support the chosen exchange rate regime. Structural reforms and improvements in the infrastructure and management of public utilities are also needed to enhance the competitiveness and viability of the non-oil tradable sector in the region. Among some participants, fixed exchange rates found favor as a way to eliminate one of the many sources of uncertainty in African economies.

Governance. If there is going to be good institutional oversight of the oil sector, Charles McPherson (World Bank) argued, countries must have a sound legal structure, with a set of sector-specific laws. He cautioned that governments should carefully evaluate the costs and benefits of national oil companies. Adequate conditions would have to be created to ensure effective control over these companies and international investors.

It was broadly agreed that governments often lacked the capacity to effectively oversee the operations of foreign and national oil companies. Participants noted the constructive role national oil companies had played in other regions in creating domestic expertise and increasing the government's share of oil revenue. However, participants acknowledged that the financial performance of these companies had been hindered by a lack of a clearly defined purpose and conflicting demands made on them by society in some African countries.

For an open discussion on fiscal policy and spending priorities, Robert Bacon (World Bank) emphasized that transparency in oil sector operations is essential. A credible aggregation of payments from the oil sector to the government should be made available, and verification mechanisms and enhanced accountability are important to avoid corruption and waste of public resources. Some participants defended the past record of their governments in this area. They suggested that the international institutions' call for greater transparency did not properly recognize the improvements that have already been made. But there was a general consensus that further progress was still needed. In particular, there were calls to make the auditing of oil sector operations common practice, improve the capabilities of statistical agencies, fully reflect oil resources in the government budget, and strengthen communications with civil society.

Learning from experience

Looking ahead, participants acknowledged that, with greater efforts, oil revenues could be the "blessing" all of these countries had originally hoped for. They expressed interest in holding similar workshops at the national level, including with the participation of the international oil companies operating in their respective countries. Many speakers appealed to the IMF, the World Bank, and the wider donor community for help in this effort, notably in providing additional training and technical assistance. ■

Menachem Katz and Ulrich Bartsch
IMF African Department

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Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
June 16	4.37	4.37	5.06
June 23	4.36	4.36	5.05

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?2003).

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Data: IMF Finance Department

IMF Working Paper

Offsetting the costs of employment protection?

Over the past two decades, and particularly since the early 1990s, the euro area has lagged behind the United States in terms of labor productivity and income growth. Economists often attribute part of Europe's more lackluster performance to high minimum wages, generous unemployment benefits, and employment protection measures. Among advanced economies, Portugal has the most restrictive employment protection and particularly stringent dismissal restrictions. In a recent Working Paper, IMF Economist Hajime Takizawa (formerly with the European I Department and now with the Middle Eastern Department) analyzes the effect of these restrictions on Portugal's labor productivity and per capita consumption (a proxy for economic welfare).

Dismissal restrictions, such as notice and severance pay requirements, curtail labor mobility—that is, the frequency with which workers move in and out of employment and between jobs. The more severe dismissal restrictions are, the less mobile labor tends to be. Employers' decisionmaking is also affected, since they find it more difficult and costly to lay off workers. They anticipate difficulties in dismissing employees and therefore hesitate to hire new workers.

Takizawa illustrates this using Portugal and the United States as examples. Although the average length of time that an individual is unemployed in Portugal is three times that of the United States, partly because of Portugal's strict dismissal restrictions, far fewer workers are likely to become unemployed than those in the United States—in fact, at least one-third less. As a result, the impact of dismissal restrictions on overall employment levels is ambiguous. Indeed, these two economies, which rank highest and lowest in terms of the strictness of their dismissal restrictions (see chart, this page), have tended to have some of the lowest unemployment rates among industrial countries.

Dismissal restrictions also impede the reallocation of labor to its most productive uses and reduce labor productivity and welfare. Empirical studies tend to support this argument, although they vary in their estimation of the size of productivity and welfare losses. But when labor is less mobile, job-specific investments—such as in-house training—tend to be higher. This can raise productivity and, in theory, mitigate the losses stemming from dismissal restrictions. Takizawa examines the extent to which this is true in Portugal.

Labor productivity and welfare

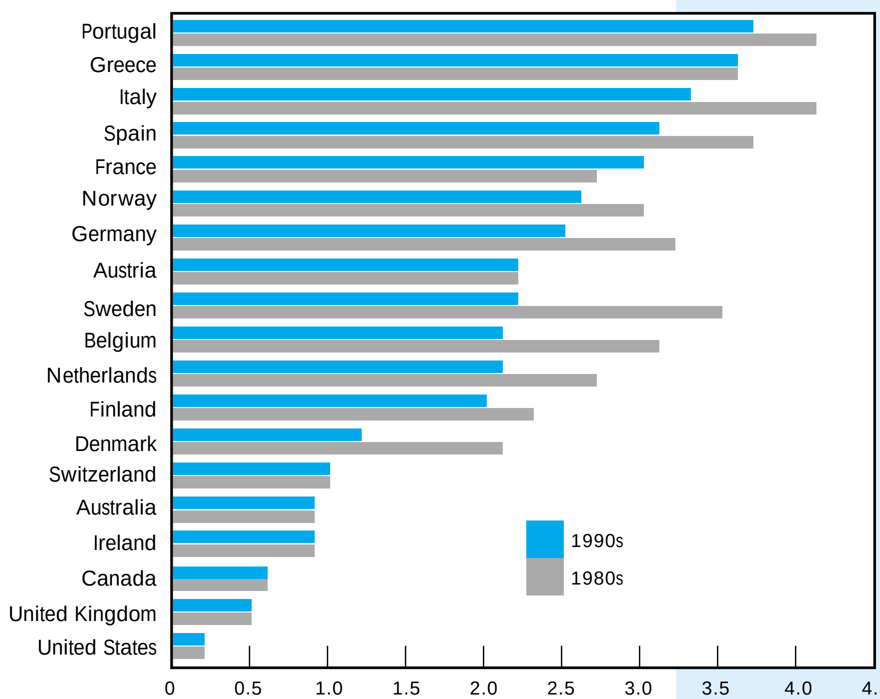
What is the impact of Portugal's strict dismissal restrictions on the country's economic welfare? Using the United States as a comparator, Takizawa finds that, even with productivity-enhancing, job-specific investments, these restrictions have caused a 35 percent loss in labor productivity and a 31 percent loss in per capita consumption. In effect, labor productivity and per capita consumption would be higher if Portugal had dismissal restrictions similar to those of the United States.

Takizawa builds his estimation on a framework that models the hiring of a worker as a match between a vacant job and a job-searching worker, and the dismissal as the breakup of the match. This breakup occurs in response to a shock that has a sufficiently negative effect on the output value of the job—that is, productivity.

Two factors contribute to these sizable economic losses. First, less productive jobs that would be elimi-

Labor productivity and per capita consumption would be higher if Portugal had dismissal restrictions similar to those of the United States.

Portugal has the strictest dismissal restrictions



Note: Based on the OECD's Employment Protection Legislation index, which measures, among other factors, restrictiveness of collective dismissals, notification requirements, and severance payments requirements. The index ranges from 0 to 6.

Data: Organization for Economic Cooperation and Development nated without strong dismissal restrictions remain intact because employers find it easier to retain than than to dismiss workers in those jobs. Second, severe dismissal restrictions slow the pace at which new productive jobs are created, because employers anticipate the high cost of dismissing workers.

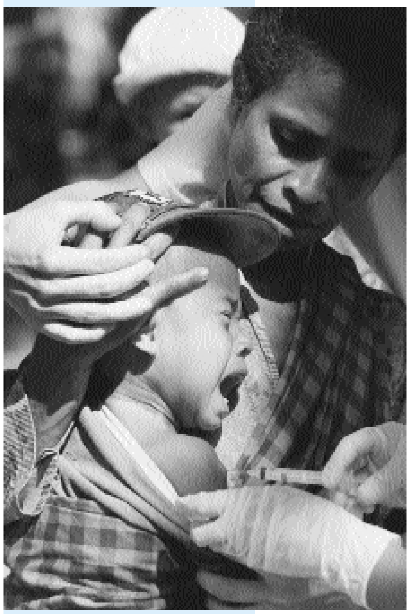
What difference do productivity-enhancing, job-specific investments in training make? Takizawa finds that job-specific investments have little impact on the size of economic losses associated with dismissal restrictions. Without such investments, losses in labor productivity and per capita consumption would be 37 percent and 32 percent, respectively. The losses are only slightly higher than in the presence of job-specific investments. Why is this? While investments increase labor productivity, with higher investments, some jobs that would otherwise be slashed are kept intact because employers have already made valuable investment. This, in turn, offsets the productivity-enhancing effect of the investments on labor productivity.

Policy implications

Since job-specific investments only marginally offset the economic losses associated with dismissal restrictions, these restrictions would have to be reduced to increase Portugal's economic welfare, suggests Takizawa. This conclusion might also hold true for other countries where such restrictions are relatively severe. ■

Copies of IMF Working Paper No. 03/75, "Job-Specific Investment and the Cost of Dismissal Restrictions—The Case of Portugal," by Hajime Takizawa, are available for $15.00 each from IMF Publication Services. Please see page 199 for ordering details. The full text is also available on the IMF's website (www.imf.org).

Rising health care spending in PRGF countries appears to be benefiting the poor



Immunization and other preventive health care measures feature strongly in IMF-supported PRSPs.

Preliminary analysis of the IMF's Poverty Reduction and Growth Facility (PRGF) and Poverty Reduction Strategy Papers (PRSPs) suggests that in the area of health care, policies are beginning to benefit the poor. But there is also scope for improvement—notably in how health care programs are costed and prioritized.

In early 2003, the IMF conducted a preliminary review of actual and projected public expenditure in countries whose economic programs are supported by PRGFs. The results indicate a distinct increase in resources devoted to reducing poverty. In 2001, countries with PRGF-supported programs allocated an amount equivalent to 8.4 percent of GDP to poverty reduction in contrast with 6.8 percent of GDP allocated in 1999 (the most recent pre-PRGF year). For 2002–03, spending on poverty reduction is expected to climb to an average 9 percent of GDP.

Higher health care spending

One sector that appears to be benefiting from increased expenditure is health care. In 2000, average actual health care spending in 26 countries slightly exceeded the level reached in 1999 (rising a notch to 1.8 percent of GDP from 1.7 percent). Projections for 29 countries for 2001–02 indicate a stronger improvement, with health care spending increasing to 2.1 percent of GDP. In real per capita terms, health care spending in PRGF-supported programs is projected to grow at an annual rate of about 10 percent—an acceleration of the trend seen in 1996–99, when outlays rose an average of about 8 percent a year.

Is the new spending pro-poor?

Aggregate data, of course, can be misleading. Just how much of these expenditures are reaching the poor? It is too early to say with any certainty, but an IMF study, using PRSP priorities as an indicator of expenditure composition, took a closer look. Its examination of 27 PRSPs that had been endorsed by the IMF and World Bank Executive Boards suggests that measures related to health care now have a central role in overall strategies to reduce poverty and enhance growth. On average, a PRSP contained 16 measures designed to improve a country's health care, with the actual number varying between 11 and 20.

The study also categorized these PRSP initiatives to see what was being emphasized and what, perhaps, warranted further attention. Virtually all PRSPs sought better health care access for the poor (see chart, page 200). Specifically, almost all included measures for increasing primary health care coverage and expanding health care infrastructure, with nearly three-fourths of the PRSPs shifting some responsibilities for health care services from central to local governments. About one-half took steps to ensure, or increase the supply of, basic medicines; hire additional health care workers; and target the provision of health care services to the most vulnerable groups.

The PRSPs also reflected a desire to strengthen preventive measures (see chart, page 200). Policies emphasized immunization, stemming the spread of epidemic diseases, and preventing and controlling HIV/AIDS. Efforts to bolster nutrition and education programs and maternal and child health also featured prominently.

There was interest, too, in improving the quality of health care services (see chart, page 200), although

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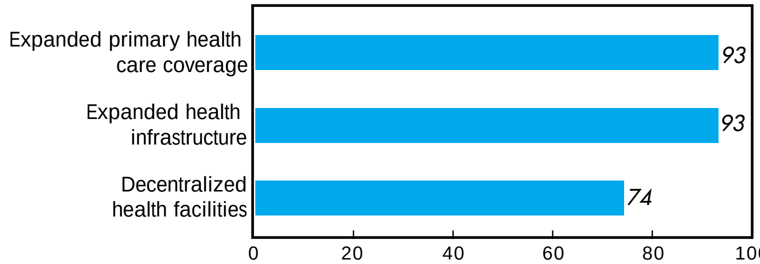
this was largely focused on improved training for health care workers. Less attention was given to private sector participation in health care services, incentives for better service delivery, and the use of standards to strengthen regulation and supervision. Efforts to strengthen public expenditure management in the health care sector featured in only one-fourth to one-third of the PRSPs.

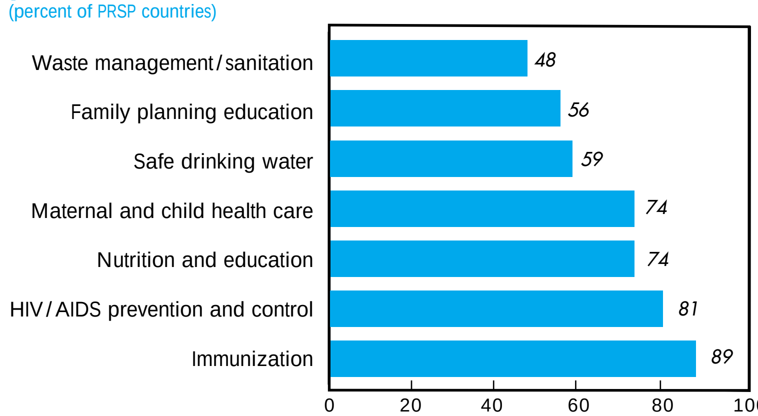
PRSPs emphasize expanded health care coverage, infrastructure

(percent of PRSP countries)



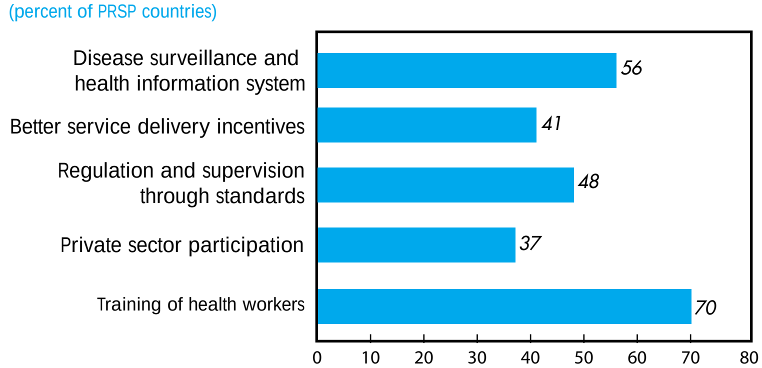
Immunization, anti-AIDS measures dominate preventive care

(percent of PRSP countries)



Training is key part of enhancing health care

(percent of PRSP countries)



Data: National authorities and IMF staff estimates

Costing, managing programs

Of course, effective implementation also depends on costs, budget resources, and prioritization. In this regard, the IMF review took a particularly careful look at how the projected cost of health care programs was being calculated. Out of the 27 countries reviewed, 22 provided explicit costing for health care sector interventions, but the quality of that costing ranged from Malawi's very detailed estimate to Guinea's aggregate estimate. More than three-fourths of the countries quantified the cost of all the programs, either through an aggregate approach or a breakdown by program. But even in these instances, financing details were often missing and cost calculations lacked transparency. Countries without explicit costing generally cited capacity constraints but did indicate continuing efforts to address these constraints.

Priorities—or rather the lack of them—were also an issue. For 2003, only Cambodia, the Kyrgyz Republic, and Malawi explicitly prioritized their policies for implementation. To mobilize additional resources, one-half of the PRSPs considered ways to improve financing arrangements. In particular, less than half of the PRSPs included actions to provide or improve basic health insurance, while only one-quarter addressed how cost recovery could be improved.

Some PRSPs also looked for tools to strengthen efficiency and the supervision of health care programs. Nine included measures to improve procurement, planning, and budgeting. And an equal number outlined provisions intended to strengthen monitoring and evaluation systems, including efforts to better track poverty-related spending. By contrast, one-half of the PRSPs featured initiatives to improve regulation and supervision of the health care system, disease surveillance, and health information systems.

Overall, the IMF review found that PRSPs are concentrating their health sector reform on helping the poor, and they are chiefly going about this by improving health care access and strengthening preventive care. But the study also concluded that efficiency and effectiveness could be bolstered if steps were taken to develop more detailed, realistic, and comprehensive cost assessments and if the various elements of the reform effort were better prioritized. ■

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