IMF SURVEY SUPPLEMENT

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Global slowdown

With new senior-level team in place, the IMF takes on challenges of difficult economic climate

The rise in world oil prices during 2000, weaker equity markets, a slump in the high-tech sector—especially in the United States—and continued difficulties in the financial and corporate sectors in Japan are among the factors that have dampened world economic growth in 2001. Global output growth is now projected to come in at slightly less than 3 percent, down from almost 5 percent in 2000. Although short-term prospects have worsened significantly during 2001, the most likely outcome remains a relatively mild and short-lived slowdown, with growth recovering in 2002–03. Nevertheless, there are significant downside risks to this scenario, including those associated with the external imbalances

At an exchange office in Ankara earlier this year, customers change liras into foreign currencies. Subsequently, strong government measures under an IMF-supported program helped to ease economic pressures in Turkey.

IMF at a glance

Establishment: December 27, 1945, when 29 countries signed the Articles of Agreement (charter). Financial operations began on March 1, 1947.

Current membership: 183 countries

Governing bodies:
Board of Governors
Executive Board

Managing Director: Horst Köhler

First Deputy Managing Director: Anne O. Krueger

Deputy Managing Directors:
Eduardo Aninat
Shigemitsu Sugisaki

Staff: About 2,500 from 133 countries

Total resources: SDR 212 billion (nearly $270 billion)

Primary purposes:

Promote international monetary cooperation.

Facilitate the expansion and balanced growth of international trade.

Promote exchange stability and *maintain* orderly exchange arrangements among member countries.

Assist in establishing a multilateral system of payments in respect of current transactions between member countries as well as in eliminating foreign exchange restrictions that hamper the growth of world trade.

Make available to member countries the IMF's general resources on a temporary basis to enable them to correct balance of payments difficulties without resorting to measures that would harm national or international prosperity.

Shorten the duration and *lessen* the degree of disequilibrium in the international balances of payments of member countries.

Main areas of activity:

Surveillance, or appraisal of its members' macroeconomic policies within the framework of a comprehensive analysis of both the general economic climate and each member's policy strategy.

Financial assistance, in the form of credits and loans to member countries with balance of payments problems, to support adjustment and reform policies.

Technical assistance, consisting of IMF expertise and financial support for member countries in several broad areas, including design and implementation of fiscal and monetary policy, institution building (such as central banks and treasuries), collection and refinement of statistical data, and training of government officials.

of the United States and some other major countries; still richly valued equity markets in many countries; and the financial difficulties of some emerging market economies.

In the United States, growth is expected to pick up in the second half of 2001 as the earlier easing of policies takes effect. Japan, suffering its fourth recession in the past decade, needs both supportive macroeconomic policies and continued structural reform, including in the banking sector, to foster self-sustained recovery. In Europe, economic growth has also slowed more markedly in the euro area than projected earlier, in spite of the support to the traded sector provided by the weakness of the currency.

Events in several emerging market economies this year—Argentina, Brazil, and Turkey—have made it clear that the risk of financial crisis is still very real. Argentina, suffering from a three-year recession, recently passed a package of fiscal adjustment measures to ease financial pressures and allay concerns about its ability to service its external debt. Neighboring Brazil has been affected by the regional difficulties and has tightened its fiscal policy to address the problems of a weakened currency, higher interest rates, and slower growth, which have exacerbated its own debt burden. After suffering a crippling financial crisis, Turkey has adopted a comprehensive strategy of bank restructuring, fiscal consolidation, and structural reform and is making good progress in addressing its economic ills.

During the year, the IMF worked to help ease the financial pressures in these countries and, together with the World Bank, to help address the problems of its poorest members.

Change and reform at the IMF

As the world economy has gone from boom to gloom, the IMF—watchdog of the international monetary and financial system—has undergone noteworthy changes. In the course of 2001, First Deputy Managing Director Stanley Fischer and two senior-level staff members announced their intention to leave: Jack Boorman, who had headed the Policy Development and Review (PDR) Department since 1990; and Economic Counsellor and Research Department Director Michael Mussa. Fischer's replacement is Anne O. Krueger, former chief economist at the World Bank and a trade expert. The first woman to serve on the IMF's management team, Krueger assumed her responsibilities on September 1. Timothy Geithner, a former undersecretary of the U.S. Treasury, will take over PDR in November; and Harvard University's Kenneth Rogoff assumed control of the Research Department on August 2. Another new appointment is Gerd Häusler, former chairman of Dresdner Bank's investment-banking arm, who became head of the IMF's newly created International Capital Markets Department on August 9.

With this new team in place, Köhler will continue his efforts to reform the IMF, based on the vision endorsed by member countries at the IMF's Annual Meetings in Prague in 2000. Among his goals is to refocus the IMF on its core responsibility, especially on its role of guardian of international financial stability. To this end, IMF staff will be undertaking further work on the development of early warning systems for financial crises. The creation of the International Capital Markets Department is intended to deepen the IMF's understanding of financial markets and its ability to identify crisis symptoms early enough to address them effectively. The aim of early warning systems is not to publicize a country's vulnerability, which could trigger the crisis the system is meant to avert, but rather to identify indicators of vulnerability and publish them in normal times so that people learn to recognize the signs of an emerging crisis. To identify these signs, the IMF would draw on its experiences assisting member countries during the crises in Asia, Russia, Brazil, Argentina, and Turkey. Another critical function of the International Capital Markets Department is to strengthen the IMF's ability to help countries gain access to international capital markets, without which the poorest countries will not be able to make a breakthrough in poverty reduction.

Improving communications between the IMF and the private financial sectors is another item on the IMF's agenda; toward this end, Köhler established the Capital Markets Consultative Group. The IMF is also exploring ways to involve private creditors at an earlier stage of preventing and resolving crises and will examine the lessons of private sector involvement in Argentina and Turkey. Köhler recognizes that, although a stronger focus on crisis prevention will help reduce the frequency and severity of crises, economic disruptions and crises cannot be avoided altogether in an open and dynamic global economy.

Köhler is also spearheading efforts to streamline the conditions the IMF attaches to its loans, not only to sharpen the focus on macroeconomic policies but also to improve country ownership of policy programs. Indeed, loans extended this year have carried fewer conditions and, among structural reforms, have emphasized those that are critical to macroeconomic success and that fall within the IMF's areas of responsibility and expertise. ■

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Illustration credit: Massoud Etemadi for the IMF, pages 7 and 8.

IMF's Articles of Agreement continue to shape organizational structure

The IMF consists of a Board of Governors, an Executive Board, a Managing Director, a First Deputy Managing Director, two other Deputy Managing Directors, and a staff of international civil servants. The IMF staff is organized mainly into departments with regional, functional, information and liaison, and support functions. The heads of these departments report to the Managing Director.

The Board of Governors of the IMF consists of one governor and one alternate for each member country. The governor, appointed by the member country, is usually the minister of finance or the central bank governor. The Board of Governors has delegated to the Executive Board all except certain reserved powers. It normally meets once a year.

The Executive Board is responsible for conducting the day-to-day business of the IMF. It is composed of 24 directors, who are appointed or elected by member countries or groups of countries. The Managing Director serves as its chairman. Meeting several times a week, the Executive Board deals with a wide variety of policy, operational, and administrative matters, including surveillance of members' macroeconomic policies, provision of IMF financial assistance to member countries, and discussion of systemic issues in the global economy.

IMF Executive Board
(as of August 20, 2001)

DIRECTOR
Alternate
Casting votes[1] of
(percent of IMF total)

RANDAL QUARLES
Meg Lundsager
United States
(371,743–17.16 percent)

KEN YAGI
Haruyuki Toyama
Japan
(133,378–6.16 percent)

KARLHEINZ BISCHOFBERGER
Ruediger von Kleist
Germany
(130,332–6.02 percent)

PIERRE DUQUESNE
Gilles Bauche
France
(107,635–4.97 percent)

STEPHEN PICKFORD
Stephen Collins
United Kingdom
(107,635–4.97 percent)

WILLY KIEKENS (Belgium)
Johann Prader (Austria)
Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey
(111,696–5.16 percent)

J. de BEAUFORT WIJNHOLDS (Netherlands)
Yuriy G. Yakusha (Ukraine)
Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, FYR of, Moldova, Netherlands, Romania, Ukraine
(105,412–4.87 percent)

HERNÁN OYARZÁBAL (Venezuela)
Fernando Varela (Spain)
Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela
(92,989–4.29 percent)

PIER CARLO PADOAN (Italy)
Harilaos Vittas (Greece)
Albania, Greece, Italy, Malta, Portugal, San Marino
(90,636–4.18 percent)

THOMAS A. BERNES (Canada)
Peter Charleton (Ireland)
Antigua and Barbuda, Bahamas, The, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
(80,636–3.72 percent)

OLLI-PEKKA LEHMUSSAARI (Finland)
Åke Törnqvist (Sweden)
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
(76,276–3.52 percent)

MICHAEL J. CALLAGHAN (Australia)
Diwa Guinigundo (Philippines)
Australia, Kiribati, Korea, Marshall Islands, Micronesia, Fed. States of, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu
(72,413–3.34 percent)

SULAIMAN M. AL-TURKI
Ahmed Saleh Alosaimi
Saudi Arabia
(70,105–3.24 percent)

CYRUS D. R. RUSTOMJEE (South Africa)
Ismaila Usman (Nigeria)
Angola, Botswana, Burundi, Eritrea, Ethiopia, Gambia, The, Kenya, Lesotho, Liberia, Malawi, Namibia, Mozambique, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
(69,968–3.23 percent)

DONO ISKANDAR DJOJOSUBROTO (Indonesia)
Kwok Mun Low (Singapore)
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam
(68,367–3.16 percent)

A. SHAKOUR SHAALAN (Egypt)
Abdelrazaq Faris Al-Faris (United Arab Emirates)
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen, Republic of
(64,008–2.95 percent)

WEI BENHUA
JIN Qi
China
(63,942–2.95 percent)

ALEKSEI V. MOZHIN
Andrei Lushin
Russia
(59,704–2.76 percent)

ROBERTO F. CIPPA (Switzerland)
Wieslaw Szczuka (Poland)
Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan
(56,900–2.63 percent)

MURILO PORTUGAL (Brazil)
Roberto Junguito (Colombia)
Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago
(53,422–2.47 percent)

VIJAY L. KELKAR (India)
R.A. Jayatissa (Sri Lanka)
Bangladesh, Bhutan, India, Sri Lanka
(52,112–2.41 percent)

ABBAS MIRAKHOR (Islamic Republic of Iran)
Mohammed Daïri (Morocco)
Algeria, Ghana, Iran, Islamic Rep. of, Morocco, Pakistan, Tunisia
(51,793–2.39 percent)

A. GUILLERMO ZOCCALI (Argentina)
Guillermo Le Fort (Chile)
Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
(43,395–2.00 percent)

ALEXANDRE BARRO CHAMBRIER (Gabon)
Damian Ondo Mañe (Equatorial Guinea)
Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Rep. of, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo
(25,169–1.16 percent)

[1]As of August 20, 2001, members' votes totaled 2,166,739. Votes in the Executive Board amounted to 2,159,666, which does not include the votes of the Islamic State of Afghanistan, Somalia, and the Federal Republic of Yugoslavia,. These countries did not participate in the 2000 Regular Election of Executive Directors. It also does not include the votes of the Democratic Republic of the Congo, which were suspended effective June 2, 1994, pursuant to Article XXVI, Section 2(b) of the Articles of Agreement.

IMF headquarters in Washington, D.C.

The IMF's Managing Director is the head of the organization's staff. Under the Board's direction, the Managing Director is responsible for conducting the ordinary business of the IMF. The Managing Director serves a five-year term and may be reappointed to successive terms.

In July 2000, the IMF and the World Bank set up separate working groups to review the process for selecting the heads of their respective institutions in an effort to make the process more open and transparent. On April 26, 2001, the IMF's Executive Board considered the two working groups' draft joint report, which they endorsed as guidance for future selection processes.

The *International Monetary and Financial Committee* of the Board of Governors (formerly the Interim Committee of the Board of Governors on the International Monetary System) is an advisory committee composed of 24 IMF governors, ministers, or other officials of comparable rank and represents the same constituencies as the IMF's Executive Board. It normally meets twice a year, in April or May and at the time of the Annual Meeting of the Board of Governors in September or October. Among its responsibilities are to advise and report to the Board of Governors on issues related to the management and adaptation of the international monetary and financial system—including disturbances that might threaten the system—and on proposals to amend the IMF's Articles of Agreement.

The *Development Committee* (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) also has 24 members—finance ministers or other officials of comparable rank—and generally meets at the same time as the International Monetary and Financial Committee. It advises and reports to the Boards of Governors of the World Bank and the IMF on development issues and on the financial resources needed to promote economic development in developing countries. ■

Capital base

Quotas define members' voting rights and access to IMF financing

The IMF is a financial cooperative, in some ways like a credit union. On joining, each member country pays in a subscription, called its "quota." A country's quota is broadly determined by its economic position relative to other members and takes into account members' GDP, current account transactions, and official reserves. Quotas (see box, below) define members' financial and organizational relations in the IMF.

What are quotas?

A member's quota defines the basis of its relationship with the IMF.

Subscription: A member's IMF quota is equivalent to its subscription in the organization. A member must pay its subscription in full: up to 25 percent in the form of international reserve assets specified by the IMF (SDRs or widely accepted foreign currencies, such as U.S. dollars, euros, Japanese yen, or pounds sterling) and the rest in its own currency.

Voting power: Each IMF member has 250 basic votes plus 1 additional vote for each SDR 100,000 of quota. Thus, the quota defines a member's voting power in the IMF.

Access to financing: The amount of financing a member can obtain from the IMF (access limits) is generally based on its quota.

Allocation of SDRs: Members' shares in SDR allocations are set in proportion to their quotas.

The combined capital subscriptions of the IMF's members form a pool of resources, which the IMF uses to help countries experiencing temporary financial difficulties. An adequate level of resources allows the IMF to provide balance of payments financing to support members implementing economic and financial reform programs.

At regular intervals of not more than five years, the IMF's Executive Board reviews members' quotas and decides—in light of developments in the global economy and changes in members' economic positions relative to other members—whether to propose an adjustment of their quotas to the Board of Governors. A member may also request an adjustment of its own quota at any time. Recently, China requested an adjustment, resulting in an increase of its quota from SDR 4,687.2 million to SDR 6,369.2 million.

In 1998, the IMF's Board of Governors, at the completion of the Eleventh General Review of Quotas, proposed increasing total quotas by 45 percent, from SDR 146 billion (about $200 billion at the time) to SDR 212 billion (about $290 billion at the time). Its decision was based on the expansion of the world economy since quotas were last increased in 1990; the scale of potential payments imbalances; the rapid globalization and liberalization of trade and payments, including the capital account; and the IMF's current and prospective liquidity needs and the adequacy of its financing arrangements.

The distribution of the overall quota increase was largely equiproportional—that is, 75 percent of the increase was distributed to all members in proportion to existing quotas. Another 15 percent was distributed in proportion to members' shares derived from formulas that measure a country's relative position in the world economy on the basis of GDP, current account transactions, and official reserves (called "calculated quotas").

The remaining 10 percent was distributed to address the most important anomalies in the quota distribution—that is, to members whose shares in calculated quotas most exceeded their shares in actual quotas.

Developments

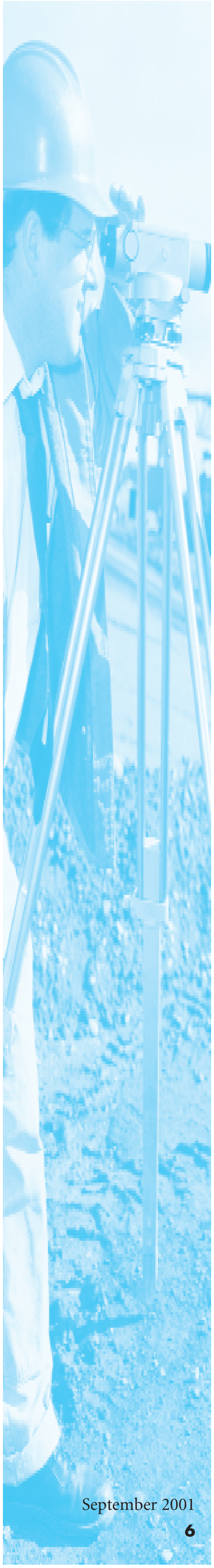
As of April 30, 2001, 174 member countries (accounting for more than 99 percent of total quotas proposed

IMF quotas
(million SDRs)

Member	Aug. 15, 2000	Aug. 20, 2001
Afghanistan, Islamic State of	120.4	120.4
Albania	48.7	48.7
Algeria	1,254.7	1,254.7
Angola	286.3	286.3
Antigua and Barbuda	13.5	13.5
Argentina	2,117.1	2,117.1
Armenia	92.0	92.0
Australia	3,236.4	3,236.4
Austria	1,872.3	1,872.3
Azerbaijan	160.9	160.9
Bahamas, The	130.3	130.3
Bahrain	135.0	135.0
Bangladesh	533.3	533.3
Barbados	67.5	67.5
Belarus	386.4	386.4
Belgium	4,605.2	4,605.2
Belize	18.8	18.8
Benin	61.9	61.9
Bhutan	6.3	6.3
Bolivia	171.5	171.5
Bosnia and Herzegovina	169.1	169.1
Botswana	63.0	63.0
Brazil	3,036.1	3,036.1
Brunei Darussalam	150.0	150.0
Bulgaria	640.2	640.2
Burkina Faso	60.2	60.2
Burundi	77.0	77.0
Cambodia	87.5	87.5
Cameroon	185.7	185.7
Canada	6,369.2	6,369.2
Cape Verde	9.6	9.6
Central African Rep.	55.7	55.7
Chad	56.0	56.0
Chile	856.1	856.1
China	4,687.2	6,369.2
Colombia	774.0	774.0
Comoros	8.9	8.9
Congo, Dem. Rep. of the	291.0	291.0
Congo, Republic of	84.6	84.6
Costa Rica	164.1	164.1
Côte d'Ivoire	325.2	325.2
Croatia	365.1	365.1
Cyprus	139.6	139.6
Czech Republic	819.3	819.3
Denmark	1,642.8	1,642.8
Djibouti	15.9	15.9
Dominica	8.2	8.2
Dominican Republic	218.9	218.9
Ecuador	302.3	302.3
Egypt	943.7	943.7
El Salvador	171.3	171.3
Equatorial Guinea	32.6	32.6
Eritrea	15.9	15.9
Estonia	65.2	65.2
Ethiopia	133.7	133.7
Fiji	70.3	70.3
Finland	1,263.8	1,263.8
France	10,738.5	10,738.5
Gabon	154.3	154.3
Gambia, The	31.1	31.1
Georgia	150.3	150.3
Germany	13,008.2	13,008.2

Member	Aug. 15, 2000	Aug. 20, 2001
Ghana	369.0	369.0
Greece	823.0	823.0
Grenada	11.7	11.7
Guatemala	210.2	210.2
Guinea	107.1	107.1
Guinea-Bissau	14.2	14.2
Guyana	90.9	90.9
Haiti	60.7	60.7
Honduras	129.5	129.5
Hungary	1,038.4	1,038.4
Iceland	117.6	117.6
India	4,158.2	4,158.2
Indonesia	2,079.3	2,079.3
Iran, Islamic Rep. of	1,497.2	1,497.2
Iraq	504.0	504.0
Ireland	838.4	838.4
Israel	928.2	928.2
Italy	7,055.5	7,055.5
Jamaica	273.5	273.5
Japan	13,312.8	13,312.8
Jordan	170.5	170.5
Kazakhstan	365.7	365.7
Kenya	271.4	271.4
Kiribati	5.6	5.6
Korea	1,633.6	1,633.6
Kuwait	1,381.1	1,381.1
Kyrgyz Rep.	88.8	88.8
Lao People's Dem. Rep.	39.1	52.9
Latvia	126.8	126.8
Lebanon	203.0	203.0
Lesotho	34.9	34.9
Liberia	71.3	71.3
Libya	1,123.7	1,123.7
Lithuania	144.2	144.2
Luxembourg	279.1	279.1
Macedonia, FYR	68.9	68.9
Madagascar	122.2	122.2
Malawi	69.4	69.4
Malaysia	1,486.6	1,486.6
Maldives	8.2	8.2
Mali	93.3	93.3
Malta	102.0	102.0
Marshall Islands	2.5	2.5
Mauritania	64.4	64.4
Mauritius	101.6	101.6
Mexico	2,585.8	2,585.8
Micronesia, Fed. States of	5.1	5.1
Moldova	123.2	123.2
Mongolia	51.1	51.1
Morocco	588.2	588.2
Mozambique	113.6	113.6
Myanmar	258.4	258.4
Namibia	136.5	136.5
Nepal	71.3	71.3
Netherlands	5,162.4	5,162.4
New Zealand	894.6	894.6
Nicaragua	130.0	130.0
Niger	65.8	65.8
Nigeria	1,753.2	1,753.2
Norway	1,671.7	1,671.7
Oman	119.4	194.0

Member	Aug. 15, 2000	Aug. 20, 2001
Pakistan	1,033.7	1,033.7
Palau, Rep. of	3.1	3.1
Panama	206.6	206.6
Papua New Guinea	131.6	131.6
Paraguay	99.9	99.9
Peru	638.4	638.4
Philippines	879.9	879.9
Poland	1,369.0	1,369.0
Portugal	867.4	867.4
Qatar	263.8	263.8
Romania	1,030.2	1,030.2
Russia	5,945.4	5,945.4
Rwanda	80.1	80.1
St. Kitts and Nevis	8.9	8.9
St. Lucia	15.3	15.3
St. Vincent and the Grenadines	8.3	8.3
Samoa	11.6	11.6
San Marino	17.0	17.0
São Tomé and Príncipe	7.4	7.4
Saudi Arabia	6,985.5	6,985.5
Senegal	161.8	161.8
Seychelles	8.8	8.8
Sierra Leone	103.7	103.7
Singapore	862.5	862.5
Slovak Republic	357.5	357.5
Slovenia	231.7	231.7
Solomon Islands	10.4	10.4
Somalia	44.2	44.2
South Africa	1,868.5	1,868.5
Spain	3,048.9	3,048.9
Sri Lanka	413.4	413.4
Sudan	169.7	169.7
Suriname	92.1	92.1
Swaziland	50.7	50.7
Sweden	2,395.5	2,395.5
Switzerland	3,458.5	3,458.5
Syrian Arab Rep.	293.6	293.6
Tajikistan	87.0	87.0
Tanzania	198.9	198.9
Thailand	1,081.9	1,081.9
Togo	73.4	73.4
Tonga	6.9	6.9
Trinidad and Tobago	335.6	335.6
Tunisia	286.5	286.5
Turkey	964.0	964.0
Turkmenistan	75.2	75.2
Uganda	180.5	180.5
Ukraine	1,372.0	1,372.0
United Arab Emirates	611.7	611.7
United Kingdom	10,738.5	10,738.5
United States	37,149.3	37,149.3
Uruguay	306.5	306.5
Uzbekistan	275.6	275.6
Vanuatu	17.0	17.0
Venezuela	2,659.1	2,659.1
Vietnam	329.1	329.1
Yemen, Rep. of	243.5	243.5
Yugoslavia, Fed. Rep. of	—	467.7
Zambia	489.1	489.1
Zimbabwe	353.4	353.4
Total	**210,251.4**	**212,414.9**



in 1998 under the Eleventh General Review of Quotas) had consented to and paid for their quota increases, substantially increasing the resources the IMF has at its disposal. In July 2001, the Executive Board approved an extension that gave members until January 31, 2002, to consent to and pay for their quota increases under the Eleventh Review.

In December 2000, the Federal Republic of Yugoslavia (Serbia/Montenegro) met the requirements to succeed to the membership of the former Socialist Federal Republic of Yugoslavia, with a quota of SDR 467.7 million.

During the financial year, the Executive Board reviewed the formulas used to calculate member quotas, with a view to simplifying them and updating them to reflect developments in the world economy, including the growing role of financial markets. After considering the recommendation of a panel of independent experts from outside the IMF, the Board concluded that the recommended formula would concentrate quotas in the largest IMF members even more and agreed to await the outcome of additional analysis by the IMF staff. A first discussion of the staff's report is planned for September 2001. ■

Financial architecture

IMF reforms will contribute to strengthening of the international financial system

After financial crises erupted in emerging markets during the 1990s and spilled over to other countries, the international community took steps to make the world less vulnerable to crises. Nonetheless, it is clear that its work is far from complete. Improving the prevention and management of crises means tackling sources of vulnerability, increasing transparency, and adhering to international standards of good economic citizenship. The IMF, the private sector, and governments all have a role to play.

Over the past decade, the IMF has made a number of changes in the way it operates. It has become increasingly open and candid about its policies and operations and has encouraged its member countries to publish information about their economic and financial polices and practices. This greater openness promotes the orderly and efficient functioning of financial markets, reduces the likelihood of shocks, and makes policymakers more accountable for their actions.

IMF reforms

In addition to building on the reforms it has initiated over the past several years, the IMF has rationalized and reformed its lending to focus on crisis prevention and to ensure that its funds are used more effectively. It has made the terms of the Contingent Credit Lines (CCL) Facility (see section on financial facilities) more attractive to potential users. It has approved measures to discourage excessive use of IMF resources by charging higher interest rates on large use of resources, as well as to encourage members to repay their IMF financing ahead of schedule. The IMF is also planning to streamline and focus conditionality by attaching fewer conditions to its financing (see section on conditionality). Programs should take adequate account of national decision-making processses and be founded on strong country "ownership" of the economic strategies supported by the IMF. The objective would be to provide maximum scope for countries to make their own policy choices while ensuring that the IMF's financing supports the necessary policy adjustments and while safeguarding IMF resources.

Focus on crisis prevention

The IMF has developed standards and codes in its main areas of responsibility (see section on standards and codes) and introduced a program of reports on countries' observance of standards and codes (ROSCs) that evaluate their economic and financial practices relative to international standards. Meeting certain standards helps ensure that economies and financial systems function properly at the national level, which is necessary if the international system is to function smoothly.

Together, the IMF and the World Bank have stepped up and improved their assessments of countries' financial systems through their Financial Sector Assessment Program, which identifies potential weaknesses in the financial system, covering banks, insurance companies, mutual funds, and financial markets. This program has now been made a regular activity of the IMF, with a goal of covering 24 countries every year, and will focus on those countries that are important to the health of the global financial system. The purpose of the program is to help countries resist crises and cross-border contagion and to increase the effectiveness of efforts to promote sound financial systems.

Much has been done to increase the focus of IMF surveillance on member countries' vulnerability to crises, including efforts to identify principles of prudent external liability management and to develop analytical frameworks for assessing countries' external vulnerability. The IMF is helping its members assess reserve adequacy, manage their reserves, and monitor and manage debt so as to prevent crises. The IMF and the World Bank jointly developed guidelines for public debt management to help countries improve their debt management practices and reduce financial vulnerability. Representatives from 122 countries and 19 institutions were consulted, and the guidelines were subsequently revised to reflect their comments. This exercise was intended to strengthen country ownership of the guidelines and to help ensure that the guidelines correspond with sound practices and are broadly understood and accepted. (The final version of the guidelines appears on the IMF's website.) The IMF is also working on early warning systems to monitor risks that arise from problems in member countries and conditions in international markets.

Early this year, IMF Managing Director Horst Köhler stressed that the IMF must gain a deeper understanding of international capital markets and financial flows. The IMF has established the International Capital Markets Department (see box, page 8), which will enhance its ability to provide early warning of potential crises. In addition, it created the Capital Markets Consultative Group (CMCG) as a channel for regular dialogue between IMF management and senior staff and representatives of the private financial sector. The CMCG held its first meeting in September 2000.

Private sector involvement in the resolution of financial crises refers to the participation of private creditors in the financing of a stabilization program. The rationale for private sector involvement is two-pronged. First, given that movements of private capital can be abrupt and can dwarf resources available from the official sector, there is a need to ensure that economic programs are adequately financed. Second, private sector involvement helps eliminate possible moral hazard, so that official financing does not reduce the incentives for the private sector to evaluate and manage risk.

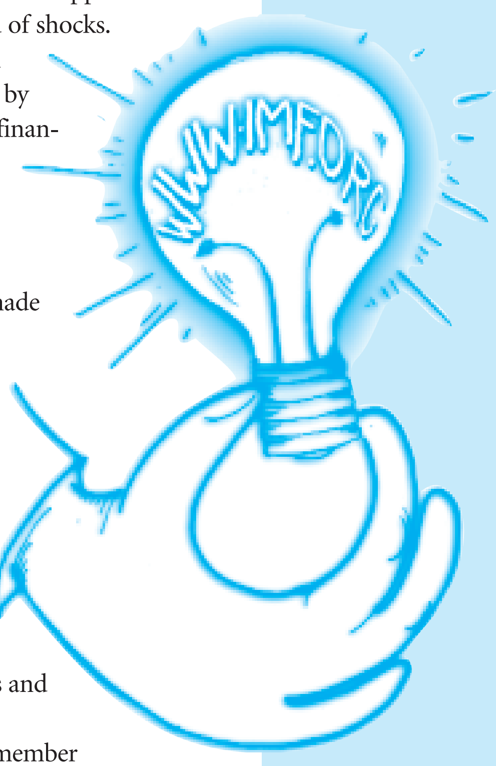
During the financial year, the IMF applied this framework in Argentina and Turkey, while work advanced on two aspects of the framework—restructuring international sovereign bonds and designing corporate sector workouts. The IMF will continue strengthening this framework in financial year 2002, including through further work on promoting constructive relations between countries and their creditors. Work also includes analyzing the prospects of return of market access for countries affected by crisis, and issues of comparabilities of treatment of private and Paris Club creditors. ■

Increased openness

Transparency is key to preventing financial crises

The more open, direct, and straightforward countries are in making policy decisions and providing data about economic and financial developments, the better they, and the international monetary system as a whole, will function. A lack of transparency was a feature of the buildup to the Mexican crisis of 1994–95 and of the emerging market crises of 1997–98. In these crises, markets were kept in the dark about important developments and became first uncertain and then unnerved as a host of interrelated problems came to light. Inadequate economic data, hidden weaknesses in financial systems, and a lack of clarity about government policies and policy formulation contributed to a loss of confidence that ultimately threatened to undermine global stability. Transparency and candor are particularly important in today's environment of substantially increased private capital movements and countries' growing integration with international capital markets.

Much has changed since the late 1990s. The international community's efforts to prevent future crises—including through the development of international standards and codes of good practices—stem partly from a commitment to greater openness. Transparency promotes the orderly and efficient functioning of financial markets by better informing participants. It can enhance economic performance by encouraging more widespread discussion and analysis of policies. It increases policymakers' accountability and should also make their policies more credible. Transparency can also help reduce the opportunities for corruption and the likelihood of shocks. These efforts by the international community have been promoted by the IMF and other international financial institutions and professional organizations.



Country transparency

Many country authorities have made greater openness a key objective. They are releasing economic data regularly and rapidly, and many have made the policymaking process much more open. Technical assistance from the IMF and other organizations will be essential if countries are to continue making progress toward greater openness and accountability.

As a key part of its work with member countries, the IMF promotes transparency practices. It has developed data standards to guide countries in disseminating economic and financial data to the public. These include the Special Data Dissemination

Standard (SDDS), which is usually subscribed to by countries that already have, or that are seeking, access to international capital markets; and the General Data Dissemination System (GDDS), which provides a framework for other countries to improve their data compilation and dissemination practices. The SDDS includes 17 data categories that countries report monthly, including international reserves and external debt.

Adherence to international standards and codes of good practices in economic policymaking helps ensure that economies function well. Codes relating to transparency represent one aspect. In addition to the SDDS, the IMF has developed codes of good practice relating to fiscal transparency and transparency in monetary and financial policies.

Transparency at the IMF

For its part, the IMF has taken steps toward explaining its work better and providing its global audience with more information about its role and operations. It has further expanded its publications program and developed an extensive website (www.imf.org) that provides information about the IMF's financial accounts, its liquidity position., and member countries' financial positions in the IMF. The IMF now publishes information on the sources of its financing.

In some cases, the IMF has opened its policy deliberations by actively seeking the views of the general public, private sector institutions, and other segments of the public. During financial year 2001, the IMF solicited comments on its concessional lending facility, the joint IMF–World Bank debt-relief initiative, various transparency-related pilot projects, work on standards and codes, the new draft guidelines for public debt management, and its conditionality practices.

IMF management and staff have been broadening their interaction with a wide range of outside groups. In July 2000, they established the Capital Markets Consultative Group to enhance communication with the markets. The aim of meetings is to maintain a dialogue with the private sector in both good and bad times and to learn from experience.

In taking steps to increase transparency, the Board has considered how to balance the IMF's responsibility for overseeing the international monetary system with its role as confidential advisor to its members. It has

- published more information about IMF surveillance of members, including Public Information Notices and Article IV consultation documents.
- published more information about countries' IMF-supported programs and the Executive Board views of these programs, as well as Chairman's statements on Board discussions of such programs.
- released Public Information Notices following certain policy discussions by the Executive Board, and released a number of policy papers.
- conducted external evaluations of the Enhanced Structural Adjustment Facility (now the Poverty Reduction and Growth Facility) and of its surveillance and research.
- released more financial information about the IMF, including key financial statistics, its liquidity position and quarterly financial transactions, and information on members' financial positions in the institution. The IMF's financial statements now conform fully with international accounting standards and clearly identify the key components of its assets and liabilities.
- substantially expanded public access to its archives.

Although unanimous on the benefits of transparency and an open publications policy in principle, Executive Directors are concerned about the potential costs of such a policy—for example, the risk of a loss of candor—and have asked for a review by January 2002 of the experience with its recent initiatives so that it can consider the next steps to take. ■

IMF creates International Capital Markets Department

On March 1, 2001, the IMF announced it would establish a new department to enhance its surveillance, crisis prevention, and crisis management activities. The new International Capital Markets Department, which became operational in June 2001, consolidates activities and operations that had been spread among three departments: Policy Development and Review, Monetary and Exchange Affairs, and Research. It also serves as liaison with the institutions that supply or intermediate the bulk of private capital worldwide.

The International Capital Markets Department is one of the IMF's initiatives to strengthen the international financial architecture and, in particular, to strengthen the IMF's role in preventing financial crises. Its purposes are to

- deepen the IMF's understanding of capital market operations and of the forces driving the supply of capital;
- improve the IMF's ability to address systemic issues related to capital market developments;
- enable the IMF to conduct more effective bilateral and multilateral surveillance;
- improve the IMF's ability to provide early warning of potential stress in the financial markets; and
- strengthen the IMF's ability to help member countries gain access to international capital markets and to deal with and benefit from interactions with the markets.

IMF surveillance enhances members' ability to take corrective policy actions

In today's global economy, where the economic developments and policy decisions of one country may affect many other countries, there must be some mechanism for monitoring countries' exchange rate and macroeconomic policies to ensure that the international monetary system operates effectively. The IMF does this by holding regular dialogues with its member countries about their economic and financial policies and by continuously monitoring and assessing economic and financial developments at the country, regional, and global levels. Through this function, referred to as "surveillance," the IMF seeks to signal dangers on the economic horizon and enable its members to take corrective policy action.

When financial crises hit Mexico in late 1994, Asia in 1997–98, Russia and Brazil in 1998, and Turkey and Argentina in 2001, the effects spilled over to other emerging economies, further underscoring the importance of surveillance. The IMF now devotes attention to a greater variety of factors that make countries vulnerable to financial crises. As a result, surveillance has become better focused and more candid. Part of this effort is work on early warning systems to monitor risks that arise from problems in member countries and conditions in international markets.

IMF conducts surveillance in several ways

Country surveillance. The IMF conducts regular (usually annual) consultations with each of its member countries. (The consultations are referred to as "Article IV consultations" because they are required by Article IV of the IMF's Articles of Agreement.) These consultations focus on the member's exchange rate, fiscal, and monetary policies; its balance of payments and external debt developments; the influence of its policies on the country's external accounts; the international and regional implications of its policies; and the identification of potential vulnerabilities. As financial markets around the world become more integrated, IMF surveillance has become increasingly focused on capital account and financial and banking sector issues. When relevant from a macroeconomic perspective, structural policies, such as those that affect a country's labor market, the environment, and governance, are also covered by surveillance.

Global surveillance. The IMF's *World Economic Outlook* report, prepared twice a year, and the annual *International Capital Markets* report provide opportunities to assess the global implications of members' policies and review key developments and prospects in the international monetary system.

Regional surveillance. To supplement country consultations, the IMF also examines policies pursued under regional arrangements, holding regular discussions with the European Union, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union. The IMF has also increased its participation in member countries' regional initiatives, including the Southern African Development Community, the Association of South East Asian Nations, the Manila Framework Group, and the Gulf Cooperation Council.

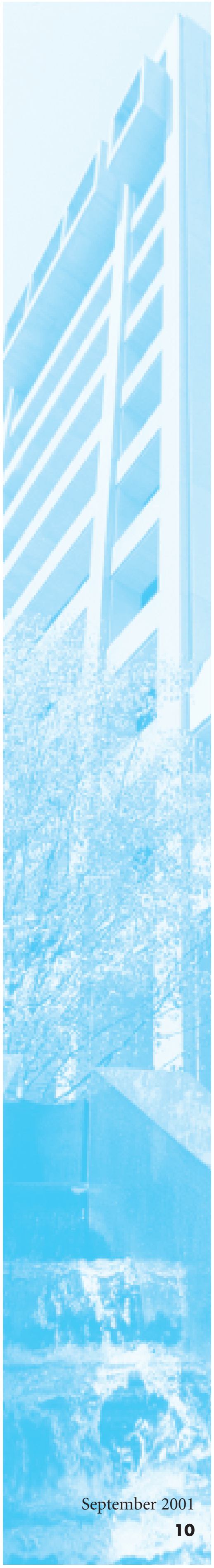
Improving effectiveness of surveillance

Provision of information. Each member country is required to provide the IMF with the information necessary for surveillance. The IMF also encourages countries to be transparent about their policies and about economic developments, for example by publishing data on external reserves, related liabilities, and short-term external debt. It is generally acknowledged that a lack of reliable data contributed to the crises in Mexico and Thailand.

Continuity. To ensure that surveillance is continuous and effective, the IMF supplements consultations with interim staff visits to member countries and frequent informal meetings of the Executive Board to review major developments in selected countries.

Focus. In light of the globalization of capital markets, IMF surveillance now involves a closer and more detailed examination of the functioning of countries' financial sectors; capital account issues; and external vulnerability, including attention to policy interdependence and countries' risks of being affected, through contagion, by events in other countries. To strengthen financial sector surveillance and support more effective dialogue on related issues, the IMF and the World Bank launched the Financial Sector Assessment Program in May 1999. Conclusions drawn from such assessments are intended to promote early detection of financial system weaknesses that may have macroeconomic implications and to help national authorities develop appropriate policy responses.

Observance of standards and codes. The IMF and other international organizations and regulatory bodies have developed internationally recognized standards, or codes of good practice, that can improve countries' economic and financial policies and sys-



tems and thereby strengthen the international financial system. Countries' adherence to such standards and codes is voluntary, but they can play an important role in helping prevent financial crises and in enhancing economic performance.

Transparency. The importance of credibility in maintaining and restoring market confidence underlines the value of policy transparency. The IMF has taken steps to encourage its members to make their policies more transparent, as well as to make its own policy advice more transparent. During the financial year, the IMF adopted a policy under which Article IV staff reports are made public when the country concerned agrees. ■

Conditionality

IMF seeks to streamline and focus conditions for lending to member countries

When the IMF provides financial support to member countries, it must be sure that the members are pursuing policies that will improve or eliminate their external payments problems, so that IMF resources are safeguarded and eventually repaid. The explicit commitment that members make to implement corrective measures in return for the IMF's support is known as "conditionality." By ensuring that members are able to repay it in a timely manner, the IMF can make its limited pool of financial resources available to other members with balance of payments problems. IMF financing and the important role it plays in helping a country secure other financing enable the country to adjust in an orderly way without resorting to measures that would harm its own or other countries' prosperity.

Conditions for IMF financial support may range from general commitments to cooperate with the IMF in setting policies, to the formulation of specific, quantified plans for economic and financial policies. The IMF requires a "letter of intent" or a "memorandum of economic and financial policies," in which a government outlines its policy intentions during the period of the adjustment program; any policy changes it will make before the arrangement can be approved; performance criteria, which are objective indicators for certain policies that a country must implement in order to draw IMF funds; and periodic reviews that allow the Executive Board to assess whether the member's policies are consistent with program objectives. IMF financing from its general resources in the "upper credit tranches" (that is, where larger amounts are provided in return for implementation of remedial measures) is disbursed in stages, in response to those assessments. In the context of program reviews, a country's progress may also be monitored against various points of reference, or benchmarks, which are not necessarily quantitative and frequently relate to structural variables and policies.

Conditions increased in 1980s

Conditions have been attached to IMF lending since the mid-1950s, focusing initially on monetary, fiscal, and exchange rate policies. Beginning in the late 1980s, the IMF increasingly emphasized economic growth as a goal of its programs while also expanding its involvement in countries where severe structural problems prevented them from achieving a sustainable balance of payments position. While the average program involved 2 or 3 structural conditions a year in the mid-1980s, by the second half of the 1990s, that number had risen to 12 or more.

This expansion raised concerns that the IMF might be overstepping its mandate and expertise by applying some conditions outside of its core areas of responsibility. Excessively detailed policy conditions could undermine a country's sense of "ownership" of a reform program—without which reform will not happen. Moreover, poorly focused conditionality could strain the administrative capacity of countries attempting to implement nonessential reforms at the cost of reforms truly needed for economic growth and continued access to IMF financing.

Steps to streamline, focus conditionality

The Managing Director of the IMF, therefore, has given high priority to streamlining conditionality—to make it more efficient, effective, and focused, without weakening it—and strengthening national ownership. Streamlining will involve a number of steps. In September 2000, the Managing Director issued interim guidelines that set out general principles, which IMF staff are now applying in both new and existing IMF-supported economic programs. In March 2001, the Executive Board discussed the principles and issues related to conditionality, based on a set of papers prepared by staff. Those papers were posted on the IMF website to invite public comment; country officials, academic experts, and representatives of other organizations added their views at three seminars held in June and July 2001. Finally, the Executive Board will take into account a staff review of the IMF's experience to date with applying the principles of the interim guidance note.

Executive Board assessment

Directors supported the broad thrust of the Managing Director's interim guidance note, agreeing that

• structural reforms critical to achieving a program's macroeconomic objectives need to be covered by IMF conditionality;

• reforms that are relevant, but not critical, to the program's objectives require a more focused and parsimonious application of conditionality;

• the appropriate coverage and content of conditionality are likely to vary, depending on countries' circumstances as well as the applicable IMF facility;

• coordination with the World Bank and other agencies is important;

• increased reliance on program reviews, useful for both forward- and backward-looking assessments of countries' economic policies, should not weaken member countries' confidence of continued access to IMF resources;

• structural benchmarks, useful to track progress in implementing structural reforms, should be limited to important and representative steps toward a policy outcome that is important to program objectives;

• letters of intent should either focus only on those aspects of policy covered by conditionality or, in cases in which the authorities wish to use the letters to present their broad policy agenda, clearly indicate which program elements are subject to conditionality; and

• the negotiation of reform programs should allow country authorities to consider various policy alternatives so that the resulting program reflects the circumstances and priorities of the country, thus ensuring its "ownership" of the program.

Remaining issues

Drawing the line between measures critical to program objectives and those relevant but not critical, and determining whether (or how) IMF conditionality would be applied to the latter are issues requiring judgment on a case-by-case basis. Related to that issue is the need to construct a framework for coordination with the World Bank and other development institutions for those program areas outside the IMF's core areas of responsibility. On program design, the pace and sequencing of structural reforms need further consideration, and work on tailoring conditionality to a country's ability to implement the reforms must continue. If the IMF should be more selective in providing financial support to programs with weak country ownership—which can be difficult to assess—it must also consider the costs to the country of holding back support. ■

Financial facilities

Restructured financing facilities reflect changing global economic environment

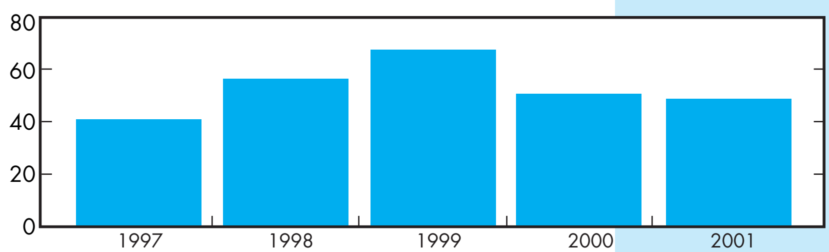
The IMF provides financial assistance to member countries with temporary balance of payments problems; it does not provide financing for specific purposes or projects, as development banks typically do (see "IMF at a glance," page 1, for purposes of the IMF). The IMF's financial assistance enables the member to rebuild its reserves or to make larger payments for imports and other external purposes than would have been possible without it. Financing must be approved by the Executive Board.

The IMF provides two kinds of financial assistance: nonconcessional and concessional. Nonconcessional assistance is made available to member countries under a number of policies and facilities, whose terms reflect the severity and duration of the balance of payments problem that the facility is designed to address (see box, pages 12–13). An individual line of credit normally takes the form of a financial arrangement with the member, under which the IMF gives assurance to the member that it will provide funding in accordance with the terms of the arrangement.

Separately, the IMF also provides concessional (low-interest) loans to low-income member countries through the Poverty Reduction and Growth Facility (PRGF) and provides grants or loans to qualifying members under the Heavily Indebted Poor Countries (HIPC) Initiative to help reduce their external debt.

IMF credit outstanding, financial years 1997/2001

(Billion SDRs)



Note: The IMF's financial year begins on May 1 and ends on April 30.
Data: IMF, *Annual Report*, 2001

Regular financing facilities

The IMF provides financing to members from a revolving pool of funds consisting of members' subscriptions, which are held in the General Resources Account (GRA). The recipient member uses its own currency to "purchase" reserve assets (in the form of widely accepted foreign currencies and SDRs) from the IMF. These assets are usually deposited in the member's central bank and can then be used in the same manner as all other international reserves. The IMF levies charges on the financing, and repayment periods vary by facility. To repay, members "repurchase" their own currency from the IMF. The amount of financing a member can obtain from the IMF (access limits) is generally based on its quota.

IMF credit is subject to the recipient country's observance of specific economic and financial policy conditions, depending on the relative size of the financing involved. For drawings of up to 25 percent of a member's quota (called the first "credit tranche"), members must demonstrate that they are making reasonable efforts to overcome their balance of payments difficulties. Drawings above 25 percent of quota (upper credit tranche drawings) are made in installments as the member meets certain established performance targets. Such drawings are normally associated with Stand-By or Extended Fund Facility Arrangements. The IMF has also developed special facilities that seek to provide additional nonconcessional assistance for certain specific balance of payments difficulties.

Executive Board review

The IMF Executive Board discussed the IMF's nonconcessional facilities in March 2000, agreeing to eliminate a number of little-used and obsolete facilities and to streamline the Compensatory Financing Facility. That discussion led to a general review aimed at adapting the IMF's facilities to the changing nature of the global economy. The review culminated, in November 2000, with the Board deciding to

- make the terms of the as yet unused Contingent Credit Lines (CCL) Facility more attractive to potential users by scaling back the monitoring arrangements for qualifying members; simplify conditions for completing the "activation" review to assure members of more automatic disbursement of resources; reduce the overall surcharge on CCL resources; and lower the commitment fee for all large arrangements. A review of the CCL Facility will be conducted in November 2002.
- discourage excessive use of IMF funds, as well as free up funds for use by other members, with surcharges on credit outstanding above a threshold level in the credit tranches and under the Extended Fund Facility.

IMF financial facilities

Credit tranches and Extended Fund Facility

- ***Credit tranche*** (1952): Designed to address balance of payments difficulties that are short term or cyclical; length of Stand-By Arrangements is typically 12–18 months with a legal maximum of 3 years.

Access limits: Annual: 100 percent of quota; cumulative: 300 percent of quota

Maturities (early repayment) / (obligatory repayment): $2\frac{1}{4}$–4 years / $3\frac{1}{4}$–5 years

Charges: GRA rate of charge + level-based surcharges: 100 basis points on amounts above 200 percent of quota, and 200 basis points above 300 percent of quota

Conditions: Member adopts policies that provide confidence that its balance of payments difficulties will be resolved within a reasonable period.

Phasing and monitoring: Quarterly purchases contingent on observance of performance criteria and other conditions

- ***Extended Fund Facility Arrangement*** (1974): Provides longer-term assistance to support structural reforms that address longer-term balance of payments difficulties. Extended Fund Facility Arrangements have upper credit tranche conditionality for access above 25 percent of quota.

Access limits: Annual: 100 percent of quota; cumulative: 300 percent of quota

Maturities (early repayment) / (obligatory repayment): $4\frac{1}{2}$–7 years / $4\frac{1}{2}$–10 years

Charges: GRA rate of charge + level-based surcharges: 100 basis points on amounts above 200 percent of quota, and 200 basis points above 300 percent of quota

Conditions: Member adopts 3-year program, with structural agenda, and provides annual detailed statement of policies for the next 12 months

Phasing and monitoring: Quarterly or semiannual purchases contingent on observance of performance criteria and other conditions

Special facilities

- ***Supplemental Reserve Facility*** (1997): Provides short-term assistance to members with balance of payments difficulties related to a sudden and disruptive loss of market confidence.

Access limits: None; this facility is available only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit

Maturities (early repayment) / (obligatory repayment): 1–$1\frac{1}{2}$ years / 2–$2\frac{1}{2}$ years

Charges: GRA rate of charge + 300 basis points rising to 500 after $2\frac{1}{2}$ years

Conditions: Available only in context of a regular arrangement with associated program and with strengthened policies to address a loss of market confidence

Phasing and monitoring: Facility available for one year; front-loaded access with two or more purchases; subsequent purchases subject to conditionality

- ***Contingent Credit Lines*** (1999): Serves as a precautionary line of defense for members with strong track records of good policies in normal times to help them resist external financial contagion.

Access limits: None, but expected to be 300–500 percent of quota in practice

Maturities (early repayment) / obligatory repayment): 1–$1\frac{1}{2}$ years / 2–$2\frac{1}{2}$ years

Charges: GRA rate of charge + 150 basis points rising to 350 after $2\frac{1}{2}$ years

Conditions: Eligibility criteria: (1) no balance of payments need from the outset; (2) positive assessment of policies by the IMF; (3) constructive relations with private

• encourage early repayment of IMF financing, with the introduction of time-based repayment expectations. Although members will continue to be required to meet the obligatory repayment schedule, they are expected to repay on an earlier schedule. Generally, a country able to repay by the earlier date signals a stronger-than-expected improvement in its external position. Those unable to meet the repayment expectation may request an extension at any time; however, if the Board does not approve an extension and the member fails to meet the original repayment expectation, its right to make further drawings, including under ongoing credit arrangements, would be suspended automatically. Experience with early repayment expectations will be reviewed by November 2005.

• enhance monitoring in member countries with large outstanding obligations to the IMF after the expiration of an IMF-supported program to monitor their continued progress toward external viability. Countries in which credit outstanding exceeds 100 percent of quota after the expiration of the arrangement would be subject to post-program monitoring until credit falls below that threshold.

Member support in 2000/2001

Favorable global economic and financial conditions contributed to a decline in new IMF commitments in financial year 2001, to SDR 14.5 billion from SDR 23.5 billion in financial year 2000. The IMF approved nine new Stand-By Arrangements during financial year 2001, committing a total of SDR 2.1 billion (as of August 15, 2001, SDR 1 = \$1.28038) and increased its commitments by SDR 11 billion under two Stand-By Arrangements already in place. It approved one new Extended Fund Facility Arrangement, for the former Yugoslav Republic of Macedonia, in the amount of SDR 24 million in combination with a PRGF arrangement in the amount of SDR 10.3 million. The commitment under Yemen's Extended Fund Facility Arrangement was reduced by SDR 33 million.

creditors and satisfactory progress in limiting external vulnerability; (4) satisfactory economic program

Phasing and monitoring: Resources approved for up to one year. Small purchase (5–25 percent of quota) available on approval. Presumption that one-third of committed resources will be released on activation, with the disbursement of the remainder determined by a post-activation review.

• ***Compensatory Financing Facility*** (1963): Covers a shortfall in a member's export earnings and services receipts as well as an excess in cereal import costs that are temporary and arise from events beyond the members' control. This facility was streamlined in 2000, with the elimination of the contingency component of the former Compensatory and Contingency Financing Facility.

Access limits: Maximum 45 percent of quota for each element—export shortfall and excess cereal import costs—for a combined limit of 55 percent of quota

Maturities (early repayment) / (obligatory repayment): 2¼–4 years / 3¼–5 years

Charges: GRA rate of charge; not subject to surcharges

Conditions: Available only when a member has an arrangement with upper credit tranche conditionality or when its balance of payments position, apart from its export shortfall, is otherwise satisfactory

Phasing and monitoring: Typically disbursed over a minimum of six months in accordance with the phasing provisions of the arrangement

• ***Emergency assistance***

1. Natural disasters (1962): Provides quick, medium-term assistance to members with balance of payments difficulties related to natural disasters.

2. Postconflict (1996): Provides quick, medium-term assistance for balance of payments difficulties related to the aftermath of civil unrest or international armed conflict

Access limits: 25 percent of quota, though larger amounts can be made available in exceptional cases

Maturities (early repayment) / (obligatory repayment): No early repayment expectation / 3¼–5 years

Charges: GRA rate of charge; not subject to surcharges; possibility of interest subsidy if financing is available

Conditions: Reasonable efforts to overcome balance of payments difficulties, and focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or an arrangement under the Poverty Reduction and Growth Facility

Phasing and monitoring: None

Facility for low-income members

• ***Poverty Reduction and Growth Facility*** (1999): Provides longer-term assistance for deep-seated, structural balance of payments difficulties; aims at sustained, poverty-reducing growth (replaced the Enhanced Structural Adjustment Facility, created in 1987).

Access norms and limits: Norm for first-time users, 90 percent of quota; others, 65 percent of quota; maximum, 40 percent of quota; exceptional maximum, 185 percent

Maturities (early repayment) / (obligatory repayment): No early repayment expectation / 5 ½–10 years

Charges: Concessional interest rate: ½ of 1 percent a year; not subject to surcharges

Conditions: Based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process, and integrating macro, structural, and poverty-reduction policies

Phasing and monitoring: Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews

The IMF's largest commitments during the year were for augmentations of existing Stand-By Arrangements for Argentina and Turkey, including shorter-term financing under the Supplemental Reserve Facility (SRF). In December 2000, the amount available under the arrangement for Turkey was augmented by SDR 5.8 billion under the SRF to address the loss of market confidence. In May 2001, the IMF committed an additional SDR 6.4 billion of credit tranche resources to Turkey. In January 2001, Argentina's Stand-By Arrangement was increased by SDR 5.2 billion, of which SDR 2.1 involved SRF resources, to support the country's reforms and improve its access to international capital markets.

In many instances, members indicate that they do not intend to draw on funds that the IMF commits to them under nonconcessional facilities and regard the lines of credit as purely precautionary. Drawings were made under only 16 of the 37 Stand-By and Extended Fund Facility Arrangements in place during the financial year. At the end of April 2001, undrawn balances under the 25 Stand-By and Extended Fund Facility Arrangements still in effect amounted to SDR 38.349 billion, about half of the SDR 73.298 billion committed. Besides the large number of precautionary arrangements, this also reflects the fact that some arrangements have gone off track.

The IMF provided a modest amount of financing under its facility for emergency assistance during the year. Three countries—Republic of Congo, Sierra Leone, and the Federal Republic of Yugoslavia—received emergency postconflict assistance amounting to SDR 138 million.

During the financial year, the IMF disbursed SDR 9.4 billion in assistance, the bulk of which went to Argentina and Turkey. A number of countries repaid SDR 11.2 billion in funds, including some extended to them during the 1997–99 financial crisis. The amount repaid during the financial year more than offset the amount disbursed, leaving IMF credit outstanding at the end of April 2001, at SDR 42.2 billion, slightly lower than a year earlier and about SDR 18 billion below the peak reached during the financial crisis in 1997/98. ■

A watermelon vendor waits for clients in downtown Ho Chi Minh City. Vietnam is receiving support for its structural reforms through an arrangement under the IMF's Poverty Reduction and Growth Facility.

Rapid growth

Technical assistance activities expand in response to member countries' needs

The IMF provides technical assistance to its member countries in areas within its core mandate—namely, macroeconomic policy, monetary and foreign exchange policy and systems, fiscal policy and management, external debt, and macroeconomic statistics. The IMF began to extend technical assistance to its members in 1964 in response to requests from newly independent African and Asian countries for help in establishing their own central banks and ministries of finance.

The IMF's technical assistance activities grew rapidly and, by the mid-1980s, the number of staff members devoted to these activities had almost doubled. In the 1990s, many countries—those of the former Soviet Union as well as a number of countries in eastern Europe—moved from command to market-oriented economies, turning to the IMF for technical assistance. The IMF has also helped countries and territories establish governmental institutions following severe civil unrest—for example, in Angola, Cambodia, East Timor, Haiti, Kosovo, Lebanon, Namibia, Rwanda, and Yemen. The IMF's technical assistance has grown from almost 70 person-years in 1970 to about 300 person-years annually by 2000 and represents about 15 percent of the IMF's total administrative expenditures.

Types of technical assistance

The IMF provides technical assistance in three broad areas:

- designing and implementing fiscal and monetary policies;
- drafting and reviewing economic and financial legislation, regulations, and procedures, thereby helping to resolve difficulties that often lie at the heart of macroeconomic imbalances; and
- institution and capacity building, such as in central banks, treasuries, tax and customs departments, and statistical services.

Technical assistance is provided through missions and short- and long-term assignments of experts to institutions in member countries. In addition, the IMF trains officials from its member countries through courses offered at its headquarters in Washington, as well as at the Joint Vienna Institute, the Singapore Training Institute, the Joint Africa Institute, the Joint Regional Training Center for Latin America, and other regional and subregional locations. Assistance is provided through several IMF departments.

The *Monetary and Exchange Affairs Department* focuses on central banking and exchange system issues as well as on designing or improving monetary policy instruments. Its assistance covers banking regulation, supervision, and restructuring; foreign exchange management and operations; central bank organization and management; central bank accounting; clearing and settlement systems for payments; monetary operations and money market development; and monetary analysis and research.

The *Fiscal Affairs Department* is responsible for providing policy advice on revenue collections and tax and customs administration; public expenditure management, including budget preparation and execution, as well as treasury operations; and pension reform and social safety net issues.

The *Statistics Department* helps members meet internationally accepted standards of statistical reporting. The agreement on the Special Data Dissemination Standard has already increased the demand for the department's assistance, which covers monetary, balance of payments, real sector, and government finance statistics.

The *IMF Institute* provides training to officials at IMF headquarters, its regional centers, and through in-country courses. The courses and seminars cover a variety of topics, including financial programming and policy, financial analysis, public finance, external sector policies, statistics, banking supervision, and monetary exchange operations. The institute also manages scholarship programs for economists from Asia that are funded by Japan and Australia in those countries and at North American universities.

The *Legal Department* helps members draft legislation and educates senior government lawyers, mainly in the laws of central banking, commercial banking, foreign exchange, and fiscal affairs.

The *Policy Development and Review Department* provides advice on debt policy and management and on the design and implementation of trade policy reforms.

The *Treasurer's Department* provides technical assistance in the IMF's financial organization and operations, the establishment and maintenance of IMF accounts, accounting for IMF transactions and positions by members, and other matters related to members' transactions with the IMF.

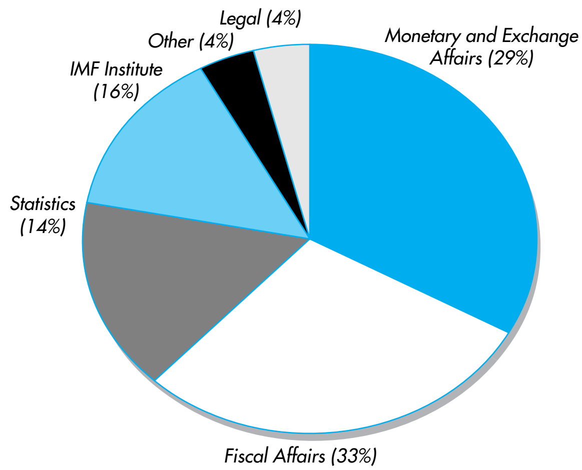
The *Bureau of Information Technology Services* helps member countries automate and modernize computer operations in their central banks, finance ministries, and statistical offices to enable them to take advantage of available technologies.

External cooperation

In recent years, technical assistance projects have grown both larger and more complex, requiring multiple sources of financing to support activities. Large projects now commonly involve more than one IMF department and more than one development partner. Donors with which the IMF cooperates include the United Nations and the United Nations Development Program; the governments of Australia, Canada, Denmark, France, Japan, the Netherlands, New Zealand, Switzerland, and the United Kingdom; the World Bank; the Asian Development Bank; and the European Union. The government of Japan also

Composition of technical assistance in financial year 2001

(Percent of total resources)



Data: IMF, *Annual Report* 2001

makes generous annual contributions to IMF technical assistance programs and scholarship support. Such cooperative arrangements with multilateral and bilateral donors not only support activities financially but also help avoid conflicting advice and redundant activities and have led to a more integrated approach to the planning and implementation of technical assistance. As the demand for technical assistance in macroeconomic and financial management grows, such arrangements will become even more valuable.

In response to the ever-increasing demand for its technical assistance, the IMF must set clear priorities so that its resources are allocated among member countries and regions in the most efficient way possible. The IMF's area (regional) departments are instrumental in identifying countries' technical assistance needs, and an interdepartmental committee of senior IMF staff—the Technical Assistance Committee—assists in this process. A number of conditions have been identified as being crucial for the successful implementation of technical assistance: commitment of the country authorities to policy and institutional reforms; a stable and cohesive macroeconomic environment; and an adequate administrative structure and local counterparts with appropriate skills. ■

Debt strategy

IMF emphasizes helping debtor countries achieve durable growth, reduce poverty

The IMF has played a central role, through its policy guidance and financial support, in helping member countries cope with external debt problems. The IMF's ultimate objective is to ensure that debtor countries achieve sustainable growth and balance of payments viability and establish normal relations with creditors, including gaining access to international financial markets. The basic elements of the IMF's debt strategy remain the same, even though the instruments it uses have evolved over time:

- promote growth-oriented adjustment and structural reform in debtor countries,
- maintain a favorable global economic environment, and
- ensure adequate financial support from official (bilateral and multilateral) and private sources.

Official bilateral debt rescheduling

Debtor countries seeking to reschedule their official bilateral debt typically approach the Paris Club—an informal group of creditor governments, mainly those of the Organization for Economic Cooperation and Development. Under such rescheduling agreements, debtor countries may generally reschedule their arrears and the current maturities of eligible debt service falling due during an IMF arrangement, with repayment stretching over many years. To ensure that such relief helps countries restore balance of payments viability and achieve sustainable economic growth, the Paris Club links debt relief to the formulation of an economic program supported by the IMF. In deciding on the coverage and terms of individual rescheduling agreements, Paris Club creditors also draw on the IMF's analysis and assessment of countries' balance of payments and debt situations.

Over the past two decades, rescheduling has proved effective for some distressed middle-income countries, which have managed to return to financial stability. For low-income countries, the Paris Club began not only to reschedule but also to reduce their debts in the late 1980s. Although the terms for these reschedulings became increasingly concessional over the years in an effort to bring more lasting relief, many poor countries did not grow as rapidly as had been hoped and their debt remained high. For these low-income, heavily indebted countries, creditors recognized the need for a new approach.

Net present value of debt

The face value of the external debt stock is not a good measure of a country's debt burden if a significant part of the external debt is contracted on concessional terms with an interest rate that is lower than the prevailing market rate. The net present value of debt, which takes into account the degree of concessionality, is the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market rate, the resulting net present value of debt is smaller than its face value, with the difference representing the grant element.

HIPC Initiative

In 1996, the IMF and the World Bank jointly developed the Heavily Indebted Poor Countries (HIPC) Initiative to help resolve the debt problems of poor countries that had been unable to reduce their external debt to manageable levels through traditional debt-relief mechanisms, even when they followed sound policies. The HIPC Initiative provides exceptional assistance to eligible countries to reduce their external debt burden to levels that they can service through their export earnings, aid, and capital inflows without compromising long-term economic growth and poverty reduction. This exceptional assistance, which entails a reduction in the net present value (see box, this page) of the public external debt of the indebted country, is expected to free up resources in debtor countries to reduce poverty and invigorate growth.

The HIPC Initiative is a comprehensive, integrated, and coordinated approach to external debt and marks the first time that multilateral, Paris Club, and other official bilateral and commercial creditors have united in an effort to reduce the debt stock of the world's most indebted poor countries through a combination of sound policies, generous debt relief, and new inflows of aid.

Early progress with the initiative was slow. As a result of a review and extensive public consultations, the HIPC Initiative was enhanced in 1999 to provide deeper, broader, and faster debt relief to eligible countries, which are expected to use the resources that are freed up for poverty reduction. About 40 countries are expected to benefit from HIPC relief.

Poverty Reduction and Growth Facility

In September 1999, the IMF also broadened the objectives of its concessional lending to low-income member countries to include an explicit focus on poverty reduction in the context of a growth-oriented strategy. It replaced the Enhanced Structural Adjustment Facility with the Poverty Reduction and Growth Facility (PRGF). The goals and policies embodied in a country's

PRGF-supported program will derive directly from the country's own poverty reduction strategy (see below). Conditionality under the PRGF is expected to emphasize the social impact of major reforms and governance, and many countries with PRGF-supported programs also obtain debt relief under the HIPC Initiative.

During financial year 2001, the IMF approved 14 new PRGF Arrangements for Benin, Cameroon, Ethiopia, Georgia, Guinea-Bissau, Kenya, the Lao People's Democratic Republic, Lesotho, the former Yugoslav Republic of Macedonia, Madagascar, Malawi, Moldova, Niger, and Vietnam. It committed a total of SDR 1.2 billion under the new arrangements and also approved increases totaling SDR 101.3 million in the existing arrangements for Ghana, Kenya, and Madagascar. During the financial year, the IMF disbursed SDR 0.6 billion under the PRGF, compared with SDR 0.5 billion last year. As of April 30, 2001, 37 members had reform programs supported by PRGF Arrangements, with IMF commitments totaling SDR 3.3 billion and undrawn balances of SDR 2.0 billion. During the year, the IMF decided that the growth prospects and external positions of China, Egypt, and Equatorial Guinea had improved to the extent that they are no longer eligible for assistance under the PRGF. Thus, the number of countries eligible under this facility declined from 80 last year to 77.

Qualifying for the HIPC Initiative and PRGF

To qualify for assistance under the enhanced HIPC Initiative, or for loans on concessional terms from the IMF or the World Bank, countries are expected to produce a poverty reduction strategy paper (PRSP) that the government prepares with the active participation of civil society, nongovernmental organizations, and international donors and institutions, so that it reflects the country's individual circumstances. Each country's strategy will describe the main characteristics of poverty and outline the appropriate antipoverty strategies over the medium and long term. Countries are expected to provide an annual progress report on the implementation of the strategies and an update of the PRSPs every three years. These homegrown PRSPs are expected to generate fresh ideas about the measures that will enable the country to achieve shared growth and poverty-reduction goals and to enhance ownership and national commitment to reaching them.

Achievements under the HIPC Initiative

By early July 2001, 23 countries (19 of them in Africa) had reached their decision points under the enhanced HIPC Initiative, and 1 under the original initiative. The IMF has committed SDR 1.3 billion to these countries in HIPC Initiative grants. This initiative, along with others, will reduce these countries' external debts, on average, by about two-thirds in net present value terms (from $53 billion to $20 billion). Resources are expected to be allocated to education; health care, including HIV/AIDS prevention and treatment; rural development and water supply; and road construction. Two countries, Uganda and Bolivia, have reached the point where they received unconditionally all debt relief committed under the initiative, and several more are expected to reach the completion point by the end of 2001.

In preparing for the spring meetings in April 2001, the Executive Board agreed that HIPC debt relief would provide a good basis for the HIPCs to achieve long-term debt sustainability; however, debtor countries must also continue to pursue sound macroeconomic management and structural reforms, supported by adequate concessional external resources and greater access to industrial country markets for their exports. The Board also emphasized that the heavily indebted poor countries should take steps to create an environment favorable to private economic activity and investment and urged them to strengthen debt management by improving transparency and accountability and coordinating debt management with monetary and fiscal policies.

Challenges ahead

The first challenge is to bring more heavily indebted poor countries to their decision points. What makes this challenge particularly difficult is that many of the countries that have not yet qualified for HIPC relief are either engaged in, or have recently ended, domestic or cross-border armed conflict. Their need for debt relief is particularly acute because they suffer from abject poverty and face major reconstruction tasks. Many are also struggling with severe governance problems. These countries require help to develop a track record of good policy performance that will allow them to move toward their decision points and begin receiving debt relief. The second challenge is to keep the countries that have reached their decision points on track to implement sound, poverty-reducing policies so that they can reach their completion points under the HIPC Initiative and achieve sustainable growth.

Complete debt forgiveness

There have been repeated appeals to the international community to simply erase all the debt of the world's poorest countries, but such a step would not be the most effective or equitable way to support the fight against poverty with the limited resources available. Today's greatest development challenge—reducing world poverty—requires a comprehensive strategy that includes the efforts of the poorest countries to help themselves, as well as increased financial assistance from the international community and improved access to industrial country markets. Debt relief under the HIPC Initiative is only one element of the international support for poor countries that removes debt as an obstacle to growth. For many years

to come, these countries will continue to need financial support on concessional terms to help them implement their growth and poverty reduction strategies and stand on their own feet.

Total debt cancellation would imperil the funds that multilateral creditors would have for future lending and would come at the expense of resources available to other developing countries, some of which are equally poor but have less external debt. Over 80 percent of the world's poor live in countries that are not HIPCs. For the IMF, total debt cancellation would exhaust the resources that finance the PRGF and the HIPC Initiative, and the IMF would have to stop providing concessional support to its poorest members. ■

IMF's role

Good governance is essential to countries' continued economic prosperity

Good governance has been found to have a direct impact on economic efficiency and growth, which the IMF promotes as part of its mandate. Although the IMF has traditionally focused on encouraging countries to correct macroeconomic imbalances, reduce inflation, and implement market reforms, it has increasingly found that countries must adopt broader institutional reforms if they are to establish and maintain private sector confidence and lay the foundation for durable economic growth.

The responsibility for governance issues lies primarily with the national authorities, and the IMF has supported their willingness and commitment to address such issues. The IMF has contributed to good governance through its policy advice, technical assistance, and dissemination of codes and best practices aimed at strengthening institutions and systems and the functioning of markets. Through its technical assistance, the IMF

- helps improve the management of public resources through reforms of public sector institutions (the treasury, the central bank, public enterprises, and the official statistics function), including such administrative procedures as expenditure control, budget management, and revenue collection; and
- supports the development and maintenance of an open and stable economic and regulatory environment—for example, price systems, exchange and trade regimes, and banking systems and related regulations—conducive to efficient private sector activities.

In July 1997, the Executive Board adopted guidelines for the role of the IMF in governance issues (see the IMF website: www.imf.org). The IMF would pay greater attention to governance issues, in particular through

IMF borrowing: GAB and NAB

The quota subscriptions of the IMF's member countries are the primary source of financial resources for the IMF. Some members, however, have committed to lend the IMF supplementary funds when needed to avert or cope with damage to the international monetary system. Two sources of supplementary financing exist: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). Total resources available to the IMF under the GAB and the NAB combined are up to SDR 34 billion (nearly $45 billion).

General Arrangements to Borrow

Under the GAB, 11 participants (industrial countries or their central banks) have agreed to lend specific amounts of currencies to the IMF in certain circumstances at market-related interest rates. The GAB have been activated 10 times, most recently in 1998 (the first time in 20 years) to finance an augmentation of the Extended Fund Facility Arrangement for Russia. The IMF repaid these drawings in early 1999 after receiving the bulk of quota payments under the Eleventh General Review. Established in 1962, the GAB have been renewed every four or five years, most recently in 1997.

New Arrangements to Borrow

Following the Mexican financial crisis in December 1994, it became clear that substantially more resources might be needed to respond to future financial crises. Participants at a June 1995 meeting of the Group of Seven called on financially strong countries to develop financing arrangements that would double the amount available to the IMF under the GAB. The outcome was the NAB, consisting of credit arrangements between the IMF and 25 member countries and institutions. The NAB were approved in January 1997 and entered into force in 1998. Participants in the NAB commit amounts based primarily on their relative economic strength, as measured by their IMF quotas. The NAB are now the borrowing facility of first and principal recourse, unless a GAB participant (all GAB participants are also participants in the NAB) requests the use of IMF resources, in which case a proposal for drawings may be made under either the NAB or the GAB. The NAB were activated for the first time in December 1998 to help finance a Stand-By Arrangement for Brazil. The IMF repaid these drawings in March 1999, following the increase in IMF resources resulting from Eleventh Review quota payments.

• a more comprehensive treatment, in the context of Article IV consultations and IMF-supported programs, of those governance issues that fall within the IMF's mandate and expertise;

• a more proactive approach in advocating policies and the development of institutions and administrative systems that eliminate opportunities for profit seeking, corruption, and fraudulent activity in the way public resources are managed;

• an evenhanded treatment of governance issues in all member countries; and

• enhanced collaboration with other multilateral institutions, in particular the World Bank, to make better use of complementary areas of expertise.

The IMF limits its involvement in governance issues to economic aspects that could have a significant macroeconomic impact, with prevention at the center of its strategy. To determine whether IMF involvement is appropriate, an assessment is made as to whether poor governance would significantly affect both a country's macroeconomic performance in the short and medium term and the government's ability to pursue policies aimed at external viability and enduring growth.

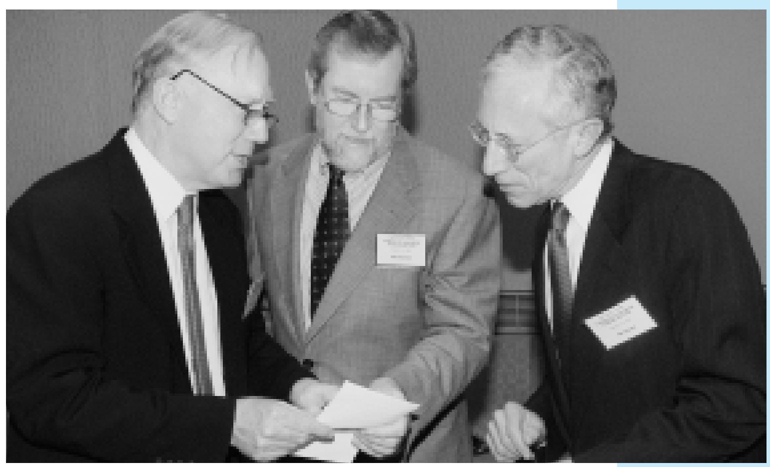
In February 2001, after reviewing the IMF's experience in governance issues, the Board concluded that the guidelines adopted in 1997 remained appropriate. It reaffirmed that the IMF's involvement in governance is founded on its mandate to promote macroeconomic stability and sustained noninflationary growth through surveillance, financial support, and technical assistance. The Board noted that the IMF's increased involvement has been facilitated by the growing consensus in the international community on the importance of good governance. Currently, the IMF's approach allows the institution to apply judgment within relatively broad boundaries. Some Directors thought the boundaries for IMF involvement should be more narrowly defined to reduce the risk of straying too far from the IMF's mandate and to ensure that the IMF remains focused on its core areas of expertise. Further reviews of the IMF's experience with governance are expected to be integrated into future reviews of surveillance, technical assistance, and conditionality. ■

Standards and codes

IMF reviews experience in assessing members' implementation of international standards

When countries conduct their economic and financial affairs prudently and transparently, guided by internationally recognized standards and codes of good practice, the international financial system is more stable and less prone to crises. Many countries, especially those with established financial markets, have long followed *national* standards and codes. As long ago as 1988, *international* standards were acknowledged with the issuance of the Basel Core Principles for Effective Bank Supervision. In the wake of the financial crises of the 1990s, the world community has stepped up efforts to reduce risk and avoid future crises. Central to these efforts is increased transparency. Equally pivotal are refining existing international standards and developing new ones as needed in areas relevant to the effective functioning of members' economic and financial systems, disseminating information on standards, and encouraging their implementation.

These tools are effective only to the extent they are recognized and consistently applied. To help ensure stability in the global financial system, the Bretton Woods institutions are, therefore, assessing member countries' implementation of standards and codes that they and various international expert bodies have formulated. While the work on standards is not new, the IMF's increased attention to standards and standards assessments will help sharpen the focus of IMF policy discussions with national authorities and strengthen the functioning of markets.



Andrew Crockett, General Manager of the Bank for International Settlements (left), and the IMF's Jack Boorman and Stanley Fischer confer at a conference on international standards and codes held on March 7–8 in Washington.

Observance of standards and codes

The IMF and the World Bank have adopted, according to their respective responsibilities, core standards in 11 areas to assess among their members; these standards fall into three broad categories covering (with some overlap) government, the financial sector, and the enterprise sector (see accompanying box, page 20). In 1999, the IMF initiated a pilot program of summary reports—subsequently called Reports on the Observance of Standards and Codes, or ROSCs—that assess individual members' implementation and use of

standards that the country believes are most relevant to its circumstances. ROSCs are a tool for assessing implementation and are used to supplement surveillance. The position of the IMF's Executive Board is that the link between standards assessment and surveillance must be kept informal; procedures that push some standards close to being member obligations risk overburdening surveillance.

During financial year 2001, the staffs of the IMF and the World Bank launched an outreach program of seminars and other activities, complemented by events organized by other bodies as well, to explain the role of standards and codes in helping countries develop sound economic and financial systems, describe progress in developing standards, provide information on the results of the assessment reports, and seek feedback on this work. By April 2001, more than 100 ROSCs had been prepared for some 40 countries. The IMF encourages countries to publish their ROSCs (about 80 percent of the reports already prepared are available on the IMF website: http://www.imf.org/external/np/rosc/index.htm), which creates an added benefit: information on the observance of standards may help investor decision making.

Standards and codes useful for IMF and World Bank operational work

Group 1: Areas defined as within the IMF's direct operational focus—international monetary and financial stability—when the ROSC pilot was initiated.

Data dissemination: The IMF's Special Data Dissemination Standard (SDDS) and General Data Dissemination System (GDDS).

Fiscal transparency: The IMF's Code of Good Practices on Fiscal Transparency.

Monetary and financial policy transparency: The IMF's Code of Good Practices on Transparency in Monetary and Financial Policies (usually assessed under the Financial Sector Assessment Program (FSAP)).

Banking supervision: Basel Committee's Core Principles for Effective Banking Supervision (usually assessed under the FSAP).

Group 2: Because of the IMF's focus on financial sector monitoring under surveillance and the World Bank's responsibility for financial sector development, these areas are included in the operational work of both institutions (and are usually assessed under the FSAP).

Securities market regulation: International Organization of Securities Commissions' Objectives and Principles for Securities Regulation.

Insurance supervision: International Association of Insurance Supervisors' Insurance Supervisory Principles.

Payments systems: Committee on Payments and Settlements Systems' Core Principles for Systemically Important Payments Systems.

Group 3: Areas important for the effective operation of domestic and international financial systems, now being assessed by the World Bank under the ROSC pilot.

Corporate governance: Organization for Economic Cooperation and Development Principles of Corporate Governance.

Accounting: International Accounting Standards Committee's International Accounting Standards.

Auditing: International Federation of Accountants' International Standards on Auditing.

Insolvency regimes and creditors' rights: The World Bank, in collaboration with other organizations, is currently working toward the development of a standard in this area.

In April 2001, the Executive Board discussed money laundering, labeling it a problem of global concern that could jeopardize the integrity of the international financial system, good governance, and the fight against corruption. Noting that international cooperation had to be stepped up to address money laundering, the Board agreed that the IMF could enhance its contribution to the effort. The IMF's main focus would continue to be on financial supervision principles and would not extend to law enforcement activities. In addition, the IMF would work more closely with major international anti-money-laundering groups, provide countries with more technical assistance, and include concerns about money laundering in its surveillance and other activities when relevant to macroeconomic policies.

Through the Financial Sector Assessment Program and its work on standards and codes, the IMF plays an important role in preventing financial abuse by helping its members adopt appropriate legal, institutional, and procedural arrangements and develop more efficient supervisory systems.

The Executive Board has called on IMF staff to cooperate with the Financial Action Task Force (FATF), which, along with regional anti-money-laundering task forces, leads international efforts to combat money laundering. It is generally agreed that FATF's 40 recommendations should be recognized as the appropriate standard for anti-money-laundering efforts and should be adapted to the IMF's work. Specifically, the FATF process needs to be made consistent with the ROSC process—that is, it should be applied uniformly, cooperatively, and voluntarily.

Lessons learned

When it reviewed the experience with the assessment of standards in January 2001, the Executive Board noted lessons learned:

- The voluntary nature of ROSC participation is an important element in securing support for the exercise in the countries assessed.
- Assessments must be conducted independently and applied consistently across countries.

• Care must be taken to consider and incorporate in standards assessments members' developmental, cultural, and legal differences.

• ROSCs can help national authorities develop their own reform plans, assess compliance with international standards and codes, and serve, if published, as a signal of their policies' transparency.

• They can provide helpful input into IMF surveillance and technical assistance.

• The assessments must not become a country-rating mechanism or make use of pass-fail judgments.

Concerns about the process

Some members have expressed concerns about the way in which standards are developed and the role of their own authorities in this process. IMF Executive Directors want to ensure that all members help to shape and guide the work on standards. Therefore, the Board plans to review regularly the list of standards used for assessments as well as assessment procedures. Authorities' views on ROSC assessments will be sought. The IMF has taken steps to prioritize assessments so that members are assessed first against those standards that would make the greatest contribution to their macroeconomic stability and performance. In several cases, the IMF has adopted an approach that sets out modified benchmarks for countries at different stages of development (although this has raised the question that discrimination could result against countries held to a lower standard). Executive Directors recognize, too, that the work on standards has led to increased demand for technical assistance to facilitate self-assessments, implement standards, and respond to assessments' recommendations—and that the IMF has a role in coordinating such assistance. ■

Overdue payments

IMF strategy focuses on prevention, cooperation, remedial measures, and deterrence

To maintain the cooperative nature and protect the financial resources of the IMF, and to keep other sources of official and private credit open to them, members must meet their financial obligations to the IMF on time. When members fall behind in their debt-service obligations, they are expected to take steps that will enable them to settle their arrears as quickly as possible.

Strategy

The IMF's cooperative strategy, strengthened in 1990, helps prevent new cases of arrears from emerging and existing arrears from becoming protracted (overdue by six months or more). The strategy has three main elements—prevention, intensified collaboration, and remedial measures—and entails close collaboration among the IMF, the World Bank, and other international financial organizations to encourage member countries to resolve their arrears problems.

Prevention. To prevent new cases of arrears from emerging, the IMF imposes conditions on the use of its resources, assesses members' medium-term external viability and ability to repay, cooperates with donors and other official creditors to ensure that IMF-supported adjustment programs are adequately financed, undertakes safeguards assessments of the central banks receiving IMF resources, and provides technical assistance to help members formulate and implement reforms.

Intensified collaboration and the rights approach. Intensified collaboration helps members design and implement economic and structural policies to resolve their balance of payments and arrears problems. It also provides a framework for members in arrears to establish a track record of policy and payments performance, mobilize resources from international creditors and donors, and become current in their obligations to the IMF and other creditors. This approach has resulted in the normalization of relations between the IMF and most of the members in protracted arrears at the time that the cooperative strategy was strengthened in 1990.

Safeguarding resources

In financial year 2001, the IMF intensified its efforts to safeguard its resources by adopting a strengthened framework of measures, including procedures for assessing the safeguards of the central banks of member countries using IMF funds. These assessments, which began in July 2000, focus on the banks' internal control, accounting, reporting, and auditing systems and, thus, on their ability to manage their resources, including IMF disbursements. If vulnerabilities are identified, IMF staff proposes remedies, including measures that could be implemented before further disbursements of IMF funds.

The new policy was adopted against the background of several instances of misreporting by some members under IMF-supported programs and allegations of misuse of IMF resources. The strengthened framework is intended to supplement conditionality, technical assistance, and other means that have traditionally ensured the proper use of IMF loans. As a result of the policy, central banks have become more aware of transparency and governance issues in their operations, and it is hoped that they will introduce more effective safeguards. The IMF also introduced measures to deal with the misreporting and misuse of information provided to it.

In some cases, a country's economic policies are formulated in the context of a "rights-accumulation program," which shares many of the features of a regular IMF-supported macroeconomic stabilization and structural reform program. A rights-accumulation program allows a country in protracted arrears to accumulate "rights" to future drawings of IMF resources through its adjustment and reform efforts. Future drawings are made only after the member has satisfactorily completed the program and cleared its arrears and the IMF has approved a successor arrangement.

Remedial measures. The arrears strategy includes a timetable of remedial measures of increasing intensity to be applied to member countries with overdue obligations that do not actively cooperate with the IMF in seeking a solution to their arrears problems. Such measures can range from a temporary limit on the member's use of IMF resources to compulsory withdrawal from the IMF.

In July 1999, the Executive Board established a process of deescalation of certain remedial measures to encourage members in protracted arrears to cooperate with the IMF to clear those arrears and have their access to IMF resources restored. Under the process, the Board would determine that the member had begun to cooperate in resolving its arrears problems, an evaluation period would be established during which cooperation would be expected to strengthen further, and remedial measures that had been taken would be lifted in stages.

Developments

Protracted arrears to the IMF declined in financial year 2001, to SDR 2.26 billion as of April 30, 2001, from SDR 2.32 billion a year earlier. Four members—the Democratic Republic of the Congo, Liberia, Somalia, and Sudan—are responsible for almost all overdue obligations to the IMF.

The Board reviewed the overdue financial obligations of two members during 2000/2001. Reviewing Liberia's overdue obligations on November 15, 2000, the Board noted a weakening of policy implementation and deterioration of relations with external creditors and donors. It decided to defer further remedial measures pending the next review, which is scheduled to take place by November 15, 2001. On July 31, 2000, November 20, 2000, and March 5, 2001, the Board reviewed Sudan's overdue obligations and found that Sudan was making payments to the IMF in line with commitments and that its policy performance was broadly on track for 1999–2001. Under its policy of deescalating remedial measures, the Board restored Sudan's voting rights in the IMF as of August 1, 2000.

With respect to the Democratic Republic of the Congo, an IMF staff team visited Kinshasa in early 2001. A follow-up mission in May held discussions for the 2001 Article IV consultation and reached understandings on a staff-monitored program for the period June 2001–March 2002.

At the end of April 2001, the Islamic State of Afghanistan, the Democratic Republic of the Congo, Iraq, Liberia, Somalia, and Sudan remained ineligible to use the general resources of the IMF. Declarations of noncooperation were in effect for the Democratic Republic of the Congo and Liberia, and the voting rights of the former remained suspended. ■

Independent Evaluation Office

During financial year 2001, the IMF's Executive Board decided to establish an office to conduct objective and independent evaluations of IMF policy and operations. These evaluations, which have the full support of IMF management, are intended to enhance the learning culture within the IMF, strengthen its external credibility, promote better understanding of its work, and support the Executive Board's responsibilities for oversight and governance of the international monetary and financial system. The Evaluation Office will be independent of management and staff and will operate at arm's length from the Executive Board. It became operational in July 2001.

Montek Singh Ahluwalia, Director, Independent Evaluation Office

Background

The Executive Board first discussed the establishment of an independent evaluation office at the IMF in January 1993, but took no action at that time. Instead, the IMF continued its existing practice of conducting and publishing the results of its own evaluations, including of IMF-supported programs during the Asian crisis, the Enhanced Structural Adjustment Facility (ESAF), and surveillance. Subsequently, the IMF sponsored and published evaluations conducted by external experts. Among the aspects of the IMF's work that have been evaluated by outside experts are the ESAF, the institution's internal research activities, and surveillance.

In reviewing this approach in March 2000, the Executive Board considered the issue of relying solely on external experts for independent evaluations, deciding that, despite the generally high quality of the evaluations to date, the experts' lack of familiarity with the details of the IMF's operations and mandate could limit the practical value of their advice.

In April 2000, the Board decided to set up an independent evaluation office in the IMF. Montek Singh Ahluwalia of India was appointed to be its director and assumed his responsibilities in August 2001. Singh, a prominent economist, has served on the Indian Planning Commission and on the Economic Advisory Council to the Prime Minister of India. From 1993 to 1998, he served as Finance Secretary at the Ministry of Finance of India.

SDR supplements existing reserves and constitutes IMF's unit of account

In 1969, the IMF created the SDR as an international reserve asset to supplement members' existing reserve assets—official holdings of gold, foreign exchange, and reserve positions in the IMF. The IMF allocates SDRs to its members in proportion to their IMF quotas. Members may use SDRs to obtain foreign exchange reserves from other members and to make payments to the IMF. SDR allocations are not loans; members may use them to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. However, a member that uses its SDRs pays the SDR interest rate on the amount by which its allocations exceed its holdings. A member that acquires SDRs in excess of its allocation receives interest. Since 1970, the IMF has allocated a total of SDR 21.4 billion to its members in two series of allocations.

The SDR is also the unit of account for IMF transactions and serves a similar function in a number of other international and regional organizations and conventions. The SDR interest rate is the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF. As of April 30, 2001, the currencies of four countries were pegged to the SDR.

How is the value of the SDR determined?

The SDR's value is based on the value of a basket of currencies. Movements in the exchange rate of any one component currency will tend to be partly or fully offset by movements in the exchange rates of the other currencies. Thus, the value of the SDR tends to be more stable than that of any single currency in the basket, which makes the SDR a useful unit of account. The basket is reviewed every five years to ensure that the currencies included in it are representative of those used in international transactions and that the weights assigned to the currencies reflect their relative importance in the world's trading and financial system. The latest review was completed in October 2000, and the IMF Executive Board decided on changes in the valuation basket, which became effective on January 1, 2001, to take account of the introduction of the euro as the common currency of a number of IMF members and to reflect the growing role of international financial markets. The new valuation basket includes the U.S. dollar, the euro, the Japanese yen, and the pound sterling. Its value is determined daily based on exchange rates quoted on major international currency markets and posted each day on the IMF's website (www.imf.org/external/np/tre/sdr/basket.htm).

SDR valuation on August 15, 2001

Currency	Currency amount	Exchange rate[1]	U.S. dollar equivalent
Euro	0.4260	0.91040	0.387830
Japanese yen	21.0000	120.56000	0.174187
Pound sterling	0.0984	1.43660	0.141361
U.S. dollar	0.5770	1.00000	0.577000
		Total	1.280378

SDR 1 = US$1.28038
US$1 = SDR 0.781019

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

Data: IMF Treasurer's Department

How is the SDR interest rate determined?

The SDR interest rate, which is adjusted weekly, is a weighted average of interest rates on selected short-term domestic instruments in the markets of the currencies included in the SDR valuation basket. Effective January 1, 2001, the representative rates are, for the euro, the three-month Euribor (euro interbank offered rate); for the Japanese yen, the yield on Japanese government 13-week financing bills; and for the U.S. dollar and the pound sterling, the yields on the three-month U.S. and U.K. treasury bills, respectively.

Use of SDRs

The SDR is a purely official asset, which is held by member country participants in the SDR Department, certain prescribed official entities (other international lending institutions or institutions that act as a common central bank for IMF members, such as the European Central Bank), and the IMF itself. The SDR is used primarily in transactions with the IMF, either by members settling obligations to the IMF, some of which must be paid in SDRs, or by the IMF making interest and principal payments to members.

Transactions are facilitated by arrangements managed by the IMF under which 13 member countries and 1 central bank are prepared to buy or sell SDRs for currencies that are readily usable in international transactions, provided that their own SDR holdings remain within certain limits. The IMF can also designate participants whose balance of payments and gross reserve positions are considered strong enough to provide foreign exchange to other members with balance of payments needs and receive SDRs in return. However, while a planning mechanism for this purpose is prepared quarterly, in practice, this mechanism has not been used since 1987 because of the success of the voluntary trading arrangements.

The total level of transfers of SDRs decreased in financial year 2001—to SDR 17.8 billion, compared with SDR 22.9 billion the previous year and the peak of SDR 49.1 billion in financial year 1999, when the volume of SDR transactions increased significantly because of payments of quota increases under the Eleventh General Review of Quotas.

SDR allocations

One of the IMF's principal goals is to facilitate the expansion and balanced growth of international trade. This requires, among other things, adequate levels of international reserves. In case of a long-term global need for reserves, the IMF's Board of Governors can decide to supplement existing reserves through an allocation of SDRs. Such a decision for a general allocation would require an 85 percent majority, and SDRs would be allocated to all members in proportion to their quotas in the IMF. There have been two general allocations, the most recent on January 1, 1981, when SDR 12.1 billion was allocated to the IMF's then 141 member countries, bringing the total of allocated SDRs to SDR 21.4 billion.

More than one-fifth of the IMF's current members have never received an SDR allocation, because they joined the IMF after January 1, 1981. In addition, other members have not participated in every allocation. After reviewing the role and functions of the SDR in the light of changes in the world financial system and to ensure that all participants in the SDR Department would receive an equitable share of cumulative SDR allocations, the Board of Governors adopted a resolution in September 1997 proposing a Fourth Amendment to the IMF's Articles of Agreement. The amendment, when approved, will provide for a special onetime allocation of SDR 21.4 billion, which will double the current level of cumulative SDR allocations. The amendment would not affect the IMF's existing power to allocate SDRs if it determines that there is a long-term global need to supplement reserves.

The proposed amendment will become effective when approved by three-fifths (110) of the members having 85 percent of the total voting power. As of July 15, 2001, 108 members having 72 percent of the total voting power had agreed. Thus, approval by the United States and any other member would now put the amendment into effect. ■

Liquidity position

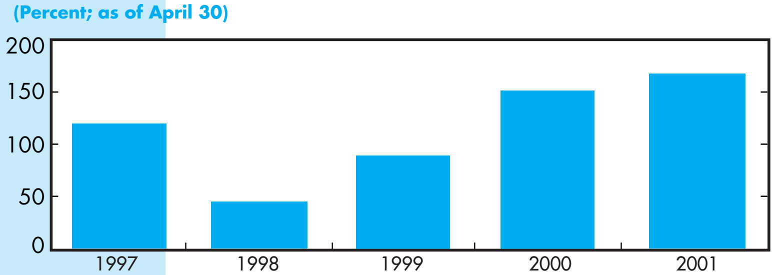
IMF's financial position remains strong

The IMF's financial position, which strengthened considerably following the 1999 increase in quotas, remained strong in financial year 2001.

The IMF's financing and other transactions are financed primarily from the quota subscriptions paid in by its member countries, although only a portion of these funds are available for financial assistance to members. Its currently usable resources consist of its holdings of the currencies of financially strong members included in the financial transactions plan (see box, page 25) and SDRs.

IMF liquidity ratio

(Percent; as of April 30)



Data: IMF, *Annual Report* 2001

The IMF does not use the currencies of members that are using IMF resources or those the IMF does not consider to be financially strong enough. Moreover, some of these usable resources will have been committed under existing arrangements and must be held for working balances. Thus, the IMF's net uncommitted usable resources represent the funds available for new financing and for fulfilling members' requests for their liquid claims on the IMF to be cashed. As of April 30, 2001, the IMF's net uncommitted usable resources amounted to SDR 78.8 billion, about 37 percent of total quotas, compared with SDR 74.8 billion a year earlier and almost four times higher than the low point that preceded the quota increase.

As of April 30, 2001, the IMF's "liquidity ratio"—defined as the ratio of the IMF's net uncommitted usable resources to its liquid liabilities—was 168.4 percent, which was more than five times higher than the low point before the 1999 increase in IMF quotas.

During financial year 2001, a number of Stand-By and Extended Fund Facility Arrangements with large undrawn balances expired—including those with Korea, Mexico, and Russia—which made about SDR 7.0 billion in funds available for new financing. In addition, the financial positions of three other countries (Korea, Oman, and Qatar) were judged to be strong enough to be added to the list of those supporting the IMF's financial operations. (Korea was included because it was considered strong enough to make early repayment of outstanding credit.) An increase in China's quota provided additional usable funds.

The IMF can supplement its quota-based funds by up to SDR 34 billion through two existing borrowing arrangements: the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB) (see box, page 18). No borrowing occurred during the year, and the credit lines under these arrangements are fully available. ■

Income, charges, remuneration, and burden sharing

IMF adds annual net income to its reserves

The IMF, like other financial institutions, earns income from charges and fees levied on its financing; it uses that income to meet funding costs and pay for administrative expenses. At the beginning of each financial year, the IMF Executive Board determines a net income target to ensure that the cost of conducting the affairs of the IMF is fully covered and to provide for a modest addition to reserves. To evaluate the adequacy of the IMF's precautionary balances—consisting of reserves and a special contingent account—the IMF takes into account all relevant factors. In doing so, it follows two guiding principles: such balances should fully cover credit outstanding to member countries in protracted arrears, and these balances should also include a margin for the risk related to credit outstanding to other IMF members in good standing. Then, based on projections for income and expenses for the year, the Board sets the basic rate of charge (which is linked to the SDR interest rate) on the use of IMF resources; the rate can be adjusted at midyear in light of actual year-to-date net income if income for the year as a whole is expected to deviate significantly from the projections. The IMF also receives income from debtor members in the form of service charges, commitment fees, and special charges on overdue payments. At year-end, any income in excess of the target is usually refunded to members that paid charges during the year; shortfalls are made up the following year.

In November 2000, the IMF introduced level-based surcharges to discourage excessively large use of credit in the credit tranches, including Stand-By Arrangements, and under the Extended Fund Facility, based on the total amount of credit outstanding. The IMF also imposes surcharges on shorter-term financing under the Supplemental Reserve Facility (SRF) and the Contingent Credit Lines, which vary according to the length of time credit is outstanding. Income derived from surcharges is added to the IMF's reserves and is not taken into account in determining the net income target for the year.

The IMF pays interest (remuneration) to creditor members on their IMF claims (reserve positions) based on the SDR interest rate. Currently, the basic rate is set at 100 percent of the SDR interest rate (the maximum allowed) but it can be as low as 80 percent. The rates of charge and remuneration are subject to a burden-sharing mechanism that distributes the cost of overdue financial obligations evenly between creditor and debtor members. Thus, the IMF recovers income forgone when charges go unpaid by raising the rate of charge and lowering the rate of remuneration; when member countries settle their overdue charges, it refunds the amounts collected.

The Executive Board set the basic rate of charge on the use of IMF resources for financial year 2001 at 115.9 percent of the SDR interest rate to achieve the agreed income target. The IMF's net income in financial year 2001 totaled SDR 175 million, which included SDR 119 million derived from earnings on net pension assets and SDR 9 million net income from the SRF. As agreed at the beginning of the financial year, SDR 42 million of net income in excess of the income target was refunded to members that paid charges during financial year 2001, effectively reducing the basic rate of charge to 113.7 percent of the SDR interest rate. Following that retroactive reduction in charges, SDR 175 million was added to the IMF's reserves—SDR 9 million of SRF net income to the General Reserve and the remainder to the Special Reserve. Total reserves rose to SDR 3.3 billion as of April 30, 2001, from SDR 3.1 billion a year earlier.

For fiscal year 2002, the basic rate of charge was set at 117.6 percent of the SDR interest rate. ■

Financial transactions plan

The financial transactions plan is relevant only for financial assistance from the General Resources Account (GRA). GRA resources are not lent; rather they are "purchased" by the member. The IMF provides financial assistance to members either by making available reserve assets from its holdings or by having financially strong countries exchange the IMF's holdings of their currencies for usable currencies. Financially strong members are selected by the Executive Board on the basis of an assessment of their economic situation, taking into account, among other things, recent and prospective developments in their balance of payments and reserves, trends in their exchange rates, and the size and maturities of their external debt obligations.

The amounts that these members transfer and receive are managed to ensure that the members' creditor positions in the IMF remain broadly the same in relation to their respective quotas. This is achieved in the framework of an indicative quarterly plan for financial transactions. As of April 30, 2001, 39 members were included in the financing plan. The IMF publishes on its website the outcome of the financial transactions plan for the quarterly period ending three months prior to publication.

Social dimensions of financing

IMF recognizes the importance of social policies

By pursuing its mandate to promote international monetary cooperation, the balanced growth of international trade, and a stable system of exchange rates, the IMF contributes to sustainable economic and human development. It recognizes that successful macroeconomic programs must include policies that directly address poverty and social concerns and that, to support these objectives, IMF-supported programs must integrate social sector spending that focuses on improving the education and health status of the poor.

The IMF's attention to social policy issues reflects the recognition that popular support—or "country ownership"—for economic adjustment programs is necessary if the programs are to succeed, and good health and education contribute to, and benefit from, growth and poverty reduction.

Girls in Abidjan, Côte d'Ivoire, participate in World AIDS Day, organized by the health ministry. Good health and good education contribute to growth and poverty reduction.

How the IMF addresses social concerns

In pursuing this aspect of its work, the IMF collaborates extensively with other institutions for advice, including regional development banks, the United Nations Development Program, the International Labor Organization, the World Health Organization, and especially the World Bank. Drawing on their expertise, the IMF provides advice to countries on how social and sectoral programs aimed at poverty reduction can be accommodated and financed within a growth-enhancing macroeconomic framework. It does so by identifying not only unproductive spending that should be reduced to make more money available for basic health care and primary education, but also key categories of public expenditure that must be maintained or increased. Through policy discussions and technical assistance, the IMF also plays a role in improving the transparency of governments' decision making and their ability to monitor poverty-reducing spending and social developments.

Poverty reduction strategy papers (PRSPs) are prepared by member country authorities through a participatory process including input from civil society and the support of the IMF, the World Bank, and other development partners. These papers describe the country's macroeconomic, structural, and social policies to promote growth and reduce poverty. They are part of a dialogue that enables the IMF to ensure that social and sectoral programs aimed at poverty reduction are consistent with the macroeconomic policies it supports. Measures supported by the IMF's Poverty Reduction and Growth Facility (PRGF), geared to low-income member countries (see box on IMF facilities, pages 12–13), derive from the overall strategy laid out in the PRSP. As of the end of June 2001, the Executive Boards of the IMF and the World Bank had considered 5 full PRSPs and 37 interim PRSPs (action plans and timetables prepared by national authorities for producing a fully developed PRSP), most from African countries.

Results

A recent review of social spending in a representative sample of 32 low-income countries that received IMF support during 1985–99 showed that these countries had both increased public social expenditures and improved social indicators. Experience varied across countries, but for the entire group, on average, per capita real spending on education increased at an annual rate of 3.4 percent and on health, 3.3 percent. Smaller gains in education spending were recorded in Africa. Social indicators gained as well: on average, and on an annual basis, overall primary school enrollment improved by 0.9 percent; female primary and secondary enrollment increased by 1.2 percent and 1.3 percent, respectively; infant mortality declined by 1.8 percent; mortality for children under the age of 5 dropped by 2.2 percent; and contraceptive prevalence rose by 5.3 percent.

These improvements in social indicators have been accompanied by an increase in social spending and a decline in defense outlays. Between 1990 and 1999, military spending declined by 1.2 percentage points of GDP in low-income countries with IMF-supported programs, while spending on health care and education in those countries increased by 0.8 percentage point of GDP.

Social impact analysis

The IMF is committed to integrating social impact analysis in PRGF-supported programs. Social impact analysis assesses how policy interventions will affect the well-being of different social groups, especially the vulnerable and the poor. Those countries that are able to do so will conduct the analysis during the preparation of PRSPs. For those countries where national capacity is weak, the IMF will draw on the work done by the World Bank and other development partners in the PRSP process.

When the social impact analysis indicates that a particular measure (for example, currency devaluation) may adversely affect groups of the poor, such effects would be addressed through the choice or timing of policies as well as through social safety nets. The safety nets built into IMF-supported programs have included subsidies or cash compensation for particular vulnerable groups; improved distribution of essential commodities, such as medicines; temporary price controls on some essential commodities; severance pay and retraining for public sector employees who have lost their jobs; and employment through public works programs. About three-fourths of the low-income countries that had IMF-supported programs during 1994–98 included social safety nets in their programs.

What else can the IMF do?

The IMF has improved the collection of data on government social expenditures, as well as the monitoring of social indicators, especially in the heavily indebted poor countries. Work on the PRSP process is still evolving and is expected to forge a stronger link between social spending and social indicators and focus attention more closely on how to help the poor. Additionally, the IMF and the World Bank are jointly assisting heavily indebted poor countries in building the capacity to track poverty-related spending. ■

Chronology

IMF adapts and expands operations to meet member countries' changing needs

1945

December 27

Articles of Agreement enter into force upon signature by 29 governments, representing 80 percent of original quotas.

1946

March 8–18

Inaugural meeting of Board of Governors in Savannah, Georgia: by-laws are adopted, agreement is reached to locate IMF headquarters in Washington, D.C., and first Executive Directors are elected.

May 6

Twelve Executive Directors, five appointed and seven elected, hold inaugural meeting in Washington, D.C.

September 27–October 5

First Annual Meetings of Boards of Governors of IMF and World Bank are held in Washington, D.C.

1947

March 1

IMF begins operations.

May 8

First drawing from IMF (by France).

1952

August 13–14

Germany and Japan become members.

Mt. Washington Hotel, Bretton Woods, New Hampshire, where the Articles of Agreement of the IMF and the World Bank were signed in 1944.

October 1

Executive Board approves proposals for standardized Stand-By Arrangements.

1962

January 5

Executive Board adopts terms and conditions of General Arrangements to Borrow (GAB).

1963

February 27

Compensatory Financing Facility is created.

1967

September 29

Board of Governors approves plan to establish special drawing rights (SDRs).

1969

July 28

First Amendment to Articles of Agreement, establishing a facility based on the SDR, takes effect after acceptance by three-fifths of membership representing four-fifths of voting power.

1970

January 1

First allocation of SDRs.

1971

August 15

United States informs IMF it will no longer freely buy and sell gold to settle international transactions. Par values and convertibility of the dollar—two main features of the Bretton Woods system—cease to exist.

December 18

After four months of negotiations, Smithsonian Agreement provides for realignment of industrial country currencies and increase in price of gold. IMF establishes temporary regime of central rates and wider margins.

1972

July 26

Board of Governors adopts resolution establishing a Committee on Reform of the International Monetary System, known as the Committee of 20.

1973

March 19

"Generalized floating" begins as European Community countries introduce joint float for their currencies against U.S. dollar.

1974

June 12–13

Committee of 20 concludes work, agreeing on immediate program to help monetary system evolve. Executive Board establishes oil facility and adopts "Guidelines for the Management of Floating Exchange Rates" and new method of SDR valuation based on basket of 16 currencies.

September 13

IMF sets up Extended Fund Facility (EFF) to give medium-term assistance to members with balance of payments problems resulting from structural economic changes.

October 3

Interim Committee holds inaugural meeting following its establishment on October 2.

1976

May 5

Executive Board establishes a Trust Fund to provide balance of payments assistance to developing country members with profits from the sale of gold. The Board decides on policies and procedures for selling gold.

June 2

IMF holds first gold auction under Interim Committee understandings on disposition of one-third of IMF gold holdings. Proceeds of sales to go to Trust Fund to benefit developing countries.

1977

February 4

IMF makes first loan disbursements under Trust Fund.

August 29

Executive Board establishes Supplementary Financing Facility.

1978

April 1

Second Amendment of Articles of Agreement enters into force, establishing the right of members to adopt exchange rate arrangements of their choice.

September 24

Interim Committee approves 50 percent quota increase under Seventh Review, which, when accepted by all members, raises IMF general resources to SDR 58.6 billion; it also agrees on new allocations of SDR 4 billion each year for three years beginning January 1979.

1979

February 23

Supplementary Financing Facility enters into force.

1980

April 25

Interim Committee agrees that IMF should be ready to play growing role in adjustment and financing of payments imbalances by providing assistance over longer periods and in larger amounts.

September 17

IMF decides to unify and simplify, as of January 1, 1981, currency baskets determining value and interest rate on SDR. Unified basket to be composed of currencies of five members with largest exports of goods and services during 1975–79: U.S. dollar, deutsche mark, French franc, Japanese yen, and pound sterling.

December 1

IMF announces that 128 members have consented to quota increases under Seventh General Review, meeting the minimum participation requirement for quota increase, under which aggregate quotas would be raised to SDR 60 billion.

1981

January 1

IMF begins to use simplified basket of five currencies to determine daily valuation of SDR.

March 13

IMF decides to institute policy of enlarged access to its resources following full commitment of resources from Supplementary Financing Facility and until Eighth General Review of Quotas takes effect.

May 7

IMF Managing Director Jacques de Larosière and Governor of Saudi Arabian Monetary Agency H.E. Sheikh Abdul Aziz Al-Quraishi sign loan agreement allowing the IMF to borrow up to SDR 8 billion to finance its policy of enlarged access, which thus becomes operative.

May 21

IMF extends financing to members encountering balance of payments difficulties produced by excesses in the cost of cereal imports. Assistance is integrated into the IMF's Compensatory Financing Facility.

1982

August 13

Mexico encounters serious problems servicing its foreign debt, marking onset of debt crisis. In following months, IMF supports major adjustment programs in Mexico and several other countries facing severe debt-servicing difficulties.

1983

February–March

Interim Committee agrees to increase IMF quotas under Eighth General Review. IMF Board of Governors adopts resolution on quota increase.

November 30

Increases in quotas under Eighth General Review take effect.

December 30

Ten participants in the GAB concur on plans to revise and enlarge the GAB.

1985

October 6–7

Interim Committee agrees that about SDR 2.7 billion in Trust Fund reflows to become available during 1985–91 will be used to provide concessional lending to low-income members.

December 2

IMF Managing Director de Larosière and World Bank President A.W. Clausen express broad support for the debt initiative proposed by U.S. Treasury Secretary James A. Baker. The initiative calls for comprehensive adjustment measures by debtors, increased and more effective structural lending by multilateral development banks, and expanded lending by commercial banks.

On May 7, 1981, Governor of the Saudi Arabian Monetary Agency, H.E. Sheikh Abdul Aziz Al-Quraishi (left), and IMF Managing Director Jacques de Larosière signed a loan agreement permitting the IMF to borrow up to SDR 8 billion to finance its policy of enlarged access.

1986

March 27

IMF establishes Structural Adjustment Facility to provide balance of payments assistance on concessional terms to low-income developing countries.

1987

February 22

Finance ministers of six major nations meet; IMF Managing Director de Larosière participates. Ministers agree, in Louvre Accord, to intensify policy coordination and to cooperate closely to foster stability of exchange rates "around current levels."

December 29

IMF establishes Enhanced Structural Adjustment Facility (ESAF) to provide resources to low-income members undertaking strong three-year macroeconomic and structural programs to improve their balance of payments and foster growth.

1988

August 23

Executive Board establishes Compensatory and Contingency Financing Facility to compensate members with shortfalls in export earnings because of circumstances beyond their control and to help maintain adjustment programs in the face of external shocks.

September 25–26
Interim Committee endorses intensified collaborative approach to arrears problem.

1989

May 23
Executive Board strengthens the strategy for dealing with developing country debt problem, based in part on proposals by U.S. Treasury Secretary Nicholas F. Brady. Countries with strong adjustment programs will gain access to IMF resources for debt or debt-service reduction.

1990

May 7–8
Interim Committee agrees to 50 percent quota increase. Committee recommends Third Amendment to Articles of Agreement, providing for suspension of voting and other membership rights for members that do not fulfill financial obligations to IMF. Committee also approves a "rights-accumulation" program that permits members with protracted arrears to establish a track record on policies and payments performance and to accumulate rights to future drawings.

Soft drink vendors near Red Square in Moscow. The IMF approved a Stand-By Arrangement for Russia in August 1992 following the dissolution of the Soviet Union.

June 28
Executive Board proposes increasing total IMF quotas from SDR 90.1 billion to SDR 135.2 billion under Ninth General Review of Quotas.

November
Executive Board approves temporary expansion of IMF facilities to support countries affected by Middle East crisis.

1991

October 5
U.S.S.R. signs agreement with IMF providing for technical assistance, pending its application for full membership.

1992

April–May
Executive Board approves membership of countries of the former Soviet Union.

August 5
IMF approves SDR 719 million Stand-By Arrangement for Russia.

November 11
Executive Board adopts Third Amendment of Articles of Agreement. This provides for the suspension of a member's voting rights, by a 70 percent majority, if the member has been declared ineligible to use the IMF's general resources and persists in its failure to fulfill its obligations under the Articles. Quota increases under Ninth General Review of Quotas take effect.

1993

April 16
Executive Board approves creation of Systemic Transformation Facility to assist countries facing balance of payments difficulties arising from the transformation from a planned to a market economy. It is to be in place through 1994.

1994

February 23
Executive Board initiates operations under renewed and enlarged ESAF.

March–May
IMF approves arrangements for 13 countries of the CFA franc zone, following January realignment of CFA franc.

June 6
IMF announces creation of three Deputy Managing Director posts.

October 2
Interim Committee adopts the Madrid Declaration, calling on industrial countries to sustain growth, reduce unemployment, and prevent a resurgence of inflation; developing countries to extend growth; and transition economies to pursue bold stabilization and reform efforts.

1995

February 1
Executive Board approves a Stand-By Arrangement of SDR 12.1 billion for Mexico, the largest financial commitment by the IMF up to this time.

1996

March 26

Executive Board approves an SDR 6.9 billion EFF Arrangement for Russia, the largest EFF in IMF history.

April 16

IMF establishes voluntary Special Data Dissemination Standard for member countries having, or seeking, access to international capital markets. A General Data Dissemination System will be implemented later.

September

Interim and Development Committees endorse joint Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

1997

January 27

Executive Board approves New Arrangements to Borrow (NAB) as the first and principal recourse in the event of a need to provide supplementary resources to IMF.

April 25

Executive Board approves issuance of Public Information Notices following conclusion of members' Article IV consultations with the IMF, at the request of the member, to make the IMF's views known to the public.

September 20

Executive Board reaches agreement on proposal to amend Articles of Agreement that will allow all members to receive an equitable share of cumulative SDR allocations.

December 4

Executive Board approves a Stand-By Arrangement of SDR 15.5 billion for Korea, the largest financial commitment in IMF history.

December 17

In the wake of the financial crisis in Asia, the IMF establishes the Supplemental Reserve Facility (SRF) to help members cope with sudden and disruptive loss of market confidence. The new facility is activated the next day to support the Stand-By Arrangement for Korea.

1998

April 8

Uganda becomes first IMF member to receive debt relief (approximately $350 million in net present value terms) under the HIPC Initiative, to which IMF is to contribute about $160 million.

July 20

IMF activates GAB for first time in 20 years, and first time for a nonparticipant, to finance SDR 6.3 billion augmentation of EFF Arrangement for Russia.

December 2

IMF activates New Arrangements to Borrow for the first time to help finance a Stand-By Arrangement for Brazil.

Bolivian farmers harvest potatoes outside La Paz. Bolivia and Uganda are the first two countries to reach their decision points under the HIPC Initiative.

1999

January 1

Eleven European member countries adopt a new common currency, the euro. The European Central Bank, which manages monetary policy for the euro area, is granted observer status in the IMF.

January 22

Quota increases under the Eleventh General Review take effect, raising total quotas to SDR 212 billion.

April 23

Executive Board expands the SRF to provide for Contingent Credit Lines for members that have strong economic policies but that might be affected by financial contagion from other countries.

September 30

Board of Governors approves a proposal to transform the Interim Committee into the International Monetary and Financial Committee. The change is accompanied by an explicit provision for preparatory meetings of representatives of the committee. The IMF Executive Board adopts a resolution to conduct, as a onetime, exceptional operation, off-market sales of up to 14 million ounces of IMF gold as part of a package to allow the IMF to finance its share of the enhanced HIPC Initiative.

November 9

Managing Director Michel Camdessus announces he will resign in early 2000 after 13 years at the helm of the IMF.

November 22

The ESAF is transformed into the Poverty Reduction and Growth Facility (PRGF); its objectives are to foster durable growth, thereby raising living standards and reducing poverty.

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Horst Köhler is the IMF's eighth Managing Director.

December 10
Uganda becomes first country to receive assistance under the IMF's PRGF.

2000

February
The IMF eliminates its Buffer Stock Financing Facility and the contingency element of the Compensatory and Contingency Financing Facility in order to streamline and simplify its facilities.

March 23
IMF Executive Board selects Horst Köhler, from Germany, to be the IMF's eighth Managing Director.

March–April
Executive Board initiates broader review of IMF financing facilities, agrees to eliminate Currency Stabilization Funds and Debt- and Debt-Service-Reduction Operations.

April 10
Executive Board agrees to establish an independent evaluation office to assess the IMF's operations and policies.

May 22
IMF's General Data Dissemination System enters operational phase.

August 1
Executive Board restores Sudan's voting rights, which had been suspended in August 1993.

December 20
Federal Republic of Yugoslavia becomes the 183rd member of the IMF.

2001

January 8
IMF Managing Director Horst Köhler and World Bank President James Wolfensohn announce that 22 countries, 18 in Africa, qualify for debt relief under the HIPC Initiative. This relief will represent a two-thirds reduction, on average, of these countries' foreign debt.

February 2
IMF approves increase in China's quota to SDR 6,369.2 million from SDR 4,687.2 million to reflect China's position in the world economy following its resumption of sovereignty over Hong Kong.

March 1
IMF announces it will establish the International Capital Markets Department to enhance its surveillance, crisis prevention, and crisis management activities.

Anne O. Krueger

March 7
IMF Executive Board reviews the conditions attached to the use of IMF resources (conditionality) and agrees to move toward a more streamlined and focused approach.

Timothy Geithner

March
IMF Executive Board adopts strengthened framework of measures to safeguard the use of financial resources made available to IMF member countries.

May 8
IMF First Deputy Managing Director Stanley Fischer announces his intention to resign his post later in the year.

Gerd Häusler

June 7
Köhler announces appointments of Anne O. Krueger as First Deputy Managing Director, Timothy Geithner as Director of Policy Development and Review Department, Gerd Häusler as Director of the International Capital Markets Department, and Kenneth Rogoff as Director of the Research Department.

Kenneth S. Rogoff