IMF SURVEY SUPPLEMENT
www.imf.org/imfsurvey

International Monetary Fund
VOLUME 31
September 2002

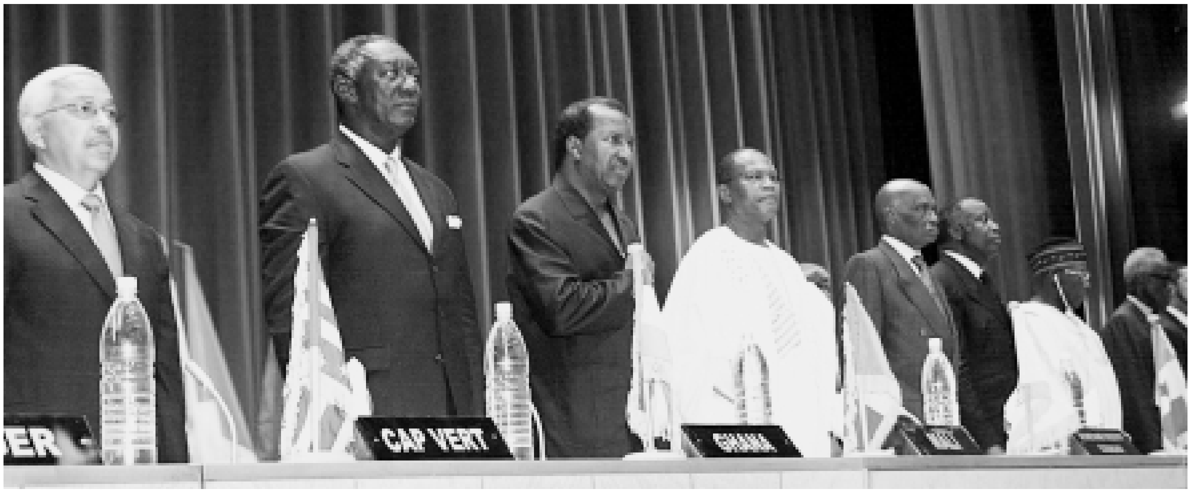
1 The IMF and Africa
Overview
2 Regional integration
4 Investment in Africa
Monterrey consensus
5 Debt strategy
6 How the HIPC works
7 Poverty reduction
8 Poverty initiative for former Soviet Union
10 Social aspect of financing
11 Financial architecture
Openness
15 Sovereign debt plan
16 Surveillance
18 Evaluation Office
19 Conditionality
20 Financial facilities
22 IMF financing
24 Technical assistance
26 Quotas
28 What is the SDR?
29 Management
Executive Board
30 Time line
32 Organization
IMF at a glance

Africa seeks to lay foundation for growth

Listening and dialogue increasingly define IMF relations with African countries and civil society. The IMF has been actively seeking out the opinions of African heads of state, public officials, business and labor representatives, and civil society and has been translating this advice into streamlined conditionality and stronger national ownership of reform programs (see page 19).

For example, the pursuit of national ownership has been central to the poverty reduction strategy paper (PRSP) process, which has just undergone a thorough review (see page 7). And the IMF and the World Bank are working hard to make the enhanced Heavily Indebted Poor Countries Initiative a success—to provide deeper, broader, and faster debt relief to eligible countries and to strengthen

(Please turn to following page)



(From left) Presidents of Cape Verde, Pedro Pires; Ghana, John Kufuor; Mali, Alpha Omar Konare; ECOWAS executive secretary Mohamed Chambas; presidents of Senegal, Abdoulaye Wade; Ivory Coast, Laurent Gbagbo; Nigeria, Olusegun Obasanjo; and Benin, Mathieu Kerekou, meet for a regional summit of the New Partnership for Africa's Development (NEPAD), May 2002.

Strength of global economic recovery in doubt

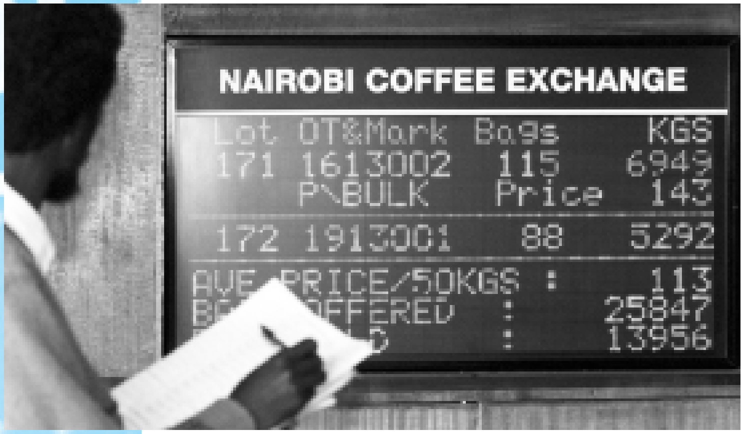
At the time of the terrorist attacks in the United States on September 11, 2001, global economic growth was sluggish, but the slowdown that had begun in mid-2000 appeared to be close to bottoming out. Some major countries—the United States, Japan, and Germany—were in or near recession, but some others—China, India, and Russia—continued to experience robust growth.

The terrorist attacks sparked new uncertainties, but the immediate economic effects of the attacks turned out to be moderate. By early 2002, it seemed that a global economic recovery, led by the United States, was under way. By mid-2002, however, weaknesses in emerging markets, as well as in mature equity markets, indicated increased risk aversion among investors. This sentiment, in turn, raised questions about the strength of the recovery. The financial difficulties experienced by some emerging market economies, particularly in Latin America, meanwhile pointed to the importance of the IMF's continuing work to prevent and resolve crises.

This annual *IMF Survey Supplement* describes the institution's policies and operations against the background of global economic and financial developments. It is updated each year to reflect any changes prompted by world events. The section on the IMF and Africa (see above) represents a new feature of the *IMF Survey Supplement.* In future years, the feature will continue to showcase areas in which the IMF has devoted considerable attention in the year under review.

A better future for Africa

(Continued from front page) the links between debt relief, poverty reduction, and social policies (see page 5). There is also greater recognition that good economic advice cannot be separated from an understanding of national political processes and the social dimension of development.



Kenyan entrepreneurs have launched East Africa's first Internet coffee auction.

Increasingly, the IMF sees that progress in African countries can show the way forward. Notably, African leaders themselves have designed and will carry out the New Partnership for Africa's Development (NEPAD), a plan to revive the continent and end its marginalization. Under NEPAD, African countries have committed themselves to encouraging peace, democracy, and good governance; designing and implementing action plans to develop the key pro-poor sectors of health care, education, infrastructure, and agriculture; achieving economic integration at the regional and global levels by building a strong private sector and fostering a climate conducive to domestic and foreign investment; and developing more productive partnerships with Africa's bilateral and multilateral development partners.

The IMF is committed to supporting NEPAD wholeheartedly. Recognizing that the biggest obstacle encountered by African economies striving for sustainable growth often is not lack of political will but lack of capacity, the IMF will set up Africa Regional Technical Assistance Centers (AFRITACs) in Abidjan and Dar es Salaam as part of its commitment. Through the AFRITACs, IMF resident experts and short-term specialists will help West and East African countries build local capacity for economic and financial management. Working closely with the World Bank, the African Development Bank, and donors, the IMF will focus on its core expertise—including macroeconomic policy, tax policy and revenue administration, public expenditure management, financial sector policies, and macroeconomic statistics. These AFRITACs, to begin operating later this year, are the first of five such centers eventually envisaged for the region.

Supporting regional integration

Eastern and southern Africa

In eastern and southern Africa, regional integration is being fostered by several subregional arrangements that have overlapping country membership. Among these are the Southern African Development Community (SADC), which is starting to phase in a free trade area set for 2008; the Common Market for Eastern and Southern Africa (COMESA), which established a free trade area between nine of its members in 2000 and plans a customs union in 2004; the Southern African Customs Union (SACU); and the East African Community (EAC), which is planning to implement a free trade area and common external tariff in 2004. Long-term objectives for both COMESA and EAC include a common currency and, for SADC, the formulation of guidelines for the convergence of macroeconomic policies and the promotion of economic stability.

The IMF is providing analytical support and advice to the secretariats of SADC and COMESA on trade and macroeconomic issues, as well as on financial sector modernization and reform, macroeconomic statistics, and the fiscal impact of trade reform. The IMF also supports the work of the Regional Integration Facilitation Forum (RIFF), particularly in its efforts to promote economic reform, coordinate the activities of the regional integration arrangements, and conduct peer-group surveillance of macroeconomic and associated policies in the region.

West Africa

Integration efforts in West Africa are subdivided into two zones under the umbrella of the 27-year-old Economic Community of West African States (ECOWAS), which has 14 members. Its progress toward regional integration has lagged behind stated aims, however. In particular, the notional free trade zone is ineffective.

Eight ECOWAS members belong to a smaller regional grouping, the West African Economic and Monetary Union (WAEMU), within which the CFA franc is the common currency. WAEMU's CFA franc is issued by a common central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), and has been pegged to the French franc since 1948 and at the French franc/euro conversion rate since 1999. Of all the regional groupings in Africa,

Ghana is promoting high-tech development to reduce its dependence on mining and agriculture.

Given its ability to generate income and reduce aid dependency, trade is an important avenue for self-help, which is the cornerstone of NEPAD and a major weapon in the international community's fight against poverty. Increased and better-coordinated support from rich countries in the form of more generous aid flows is also a major component of the poverty-fighting arsenal. The IMF continues to be an advocate for industrial countries to increase development assistance to poor countries with strong policies and to open their markets by phasing out trade-distorting subsidies and other trade barriers.

The IMF also supports stronger implementation of African regional initiatives as a way to increase access to markets both inside and outside Africa, improve competitiveness, and promote economic growth. NEPAD identifies regional cooperation and integration as key conditions that must be present in order for Africa to develop (see box, page 2).

Implementing the "Monterrey Consensus," which emerged from the International Conference on Financing for Development held in Monterrey, Mexico, in March 2002 (see box, page 4), is an important next step in the international community's efforts to improve living conditions in Africa. The IMF remains committed to contributing to this global effort—through its economic policy advice and financial and technical assistance. ■

This medical center in Burkina Faso exemplifies one country's efforts to develop health care under NEPAD.

WAEMU is the furthest along the path toward integration. In addition to successfully maintaining their 52-year-old currency union, WAEMU members have implemented macroeconomic convergence criteria and an effective surveillance mechanism, adopted a customs union and common external tariff (in early 2000), harmonized indirect taxation regulations, and initiated regional structural and sectoral policies.

The IMF has granted significant technical assistance to WAEMU and its institutions, as well as analytical support and advice on macroeconomic, fiscal, and trade policy and on financial sector modernization and reform. Since 1999, WAEMU has benefited from formal discussions to supplement the Article IV consultations with member countries.

The other six ECOWAS members decided in 2000 to form a second monetary zone (the West African Monetary Zone—WAMZ) by 2003 and to merge this zone with WAEMU's monetary zone by 2004. The IMF is providing technical assistance to the WAMZ project, including in statistical/data management and training for the West African Monetary Institute (WAMI)—a transitional institution intended to pave the way for a common central bank. On a policy level, the IMF believes that the convergence among WAMZ member economies is not strong enough to adhere to the declared time frame for achieving a monetary union.

Central Africa

Integration in Central Africa is concentrated on the Central African Economic and Monetary Community (CEMAC), which groups six countries. CEMAC's common currency, also the CFA franc, is issued by the Banque des Etats de l'Afrique Centrale (BEAC). It has been pegged, like WAEMU's CFA franc, to the French franc since 1948 and at the French franc/euro conversion rate since 1999. Despite this notable progress in maintaining a long-standing currency union, CEMAC's integration efforts in other areas are not very advanced. A common external tariff introduced in 1994 has not been fully implemented, and progress in harmonizing tax policies and adopting common sectoral and structural policies has been slow.

Over the years, the IMF has furnished technical assistance to CEMAC and its institutions, as well as analytical support and advice on macroeconomic, fiscal, and trade policy and on financial sector modernization and reform. Since 1999, formal regional discussions have been held to supplement the Article IV consultations with individual member countries.

Advisory councils launched

Improving Africa's investment climate

Earlier this year, a joint initiative by IMF Managing Director Horst Köhler and World Bank President James Wolfensohn came to fruition with the inauguration of Investment Advisory Councils (IACs) in Ghana and Tanzania. These councils are intended to promote dialogue between the government and senior executives of local and international companies on ways to improve the investment climate.

Ghana's IAC was launched in May 2002 under the chairmanship of President John Kufuor, who was joined by Köhler and senior Ghanaian and foreign business executives. At its inaugural meeting, the council identified a number of priority areas for government action, including regulatory reforms related to land ownership and mining and labor laws; safety and security; infrastructure, especially for energy, telecommunications, and information technology; financial services infrastructure; public sector sensitivity to the private sector; restoration of competitiveness to the mining sector; the economy's dependence on aid and commodity exports; and the need for a partnership among government, private sector industries, and labor. The council will convene again in November to assess progress and update its recommendations.

These councils are intended to promote dialogue between the government and senior executives of local and international companies.

The Tanzania Investors' Round Table, chaired by President Benjamin Mkapa, held its opening meeting in July 2002 in the presence of Wolfensohn. Preparations for creating the Investment Advisory Council in Senegal before the end of the year are well under way, and several other African countries have expressed interest in launching their own IACs.

IMF and World Bank staff plan to attend future IAC meetings as observers and offer assistance and support where needed. The two institutions' resident offices stand ready to cooperate with IAC working groups and provide information. The IMF and the Bank will also consider any technical assistance requests related to the councils' work, especially for follow-up implementation needs and capacity building in their respective areas of expertise. ■

The Monterrey Consensus

The UN International Conference on Financing for Development marked an important milestone for the partnership on global development. Held March 18–22, 2002, in Monterrey, Mexico, the conference brought together more than 50 heads of state, 300 ministers, and representatives of international organizations, civil society, and businesses to agree on a common vision of what is required to overcome world poverty.

The conference was widely seen as a success, and the participants adopted the Monterrey Consensus, a plan for sustainable development that defines development priorities and how to achieve them. Although broad development objectives—such as halving poverty by 2015 and achieving universal primary education—had been defined at the Millennium summit, a UN-sponsored conference held two years ago, the Monterrey Consensus focuses on how best to finance the measures taken toward these goals.

The consensus calls for a partnership between developing and developed countries, based on a mutually accountable commitment to promoting growth and reducing poverty. The developing countries must take the initiative to improve governance, pursue appropriate policies, strengthen domestic financial systems, invest in economic and social infrastructure, and provide a transparent, stable environment for potential investors. The developed countries, for their part, must match these efforts by boosting aid; reducing barriers to free trade; pursuing debt-relief measures, such as the full implementation of the enhanced Heavily Indebted Poor Countries Initiative; and helping developing countries build capacity, in terms of both institutions and human capital.

The IMF and other international financial institutions have a coordinating and regulating role to play in the partnership. They can also encourage the more efficient use of development aid and provide the technical assistance that is vital to capacity building.

The next step is to build support for the Monterrey Consensus within the countries that have adopted it, in order to turn its abstract vision into concrete action. Poverty reduction strategy papers will serve as important tools in this process (see page 7), helping countries articulate nationally owned policies consistent with reform objectives. But while the Monterrey Consensus lays the groundwork for future action, details remain to be worked out. One is the question of how to monitor progress toward achieving the development goals—or even how to define progress. In light of these questions, the dialogue continues.

Debt strategy

Poor countries' goal is to reduce debt, fight poverty, and achieve durable growth

The IMF plays 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 have remained 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.

Paris Club

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 agreements, debtor countries generally reschedule their arrears and the current maturities of eligible debt service, 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 helped some distressed middle-income countries 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.

New approach needed

Although the terms for Paris Club reschedulings became increasingly concessional over the years 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.

Launched in 1996, the original Heavily Indebted Poor Countries (HIPC) Initiative marked the first time that multilateral, Paris Club, and other official bilateral and multilateral creditors combined efforts to reduce the external debt of the world's most debt-laden poor countries to "sustainable levels"—that is, levels that will allow these countries to service their debt through export earnings, aid, and capital inflows without compromising long-term, poverty-reducing growth. This exceptional assistance, which entails a reduction in the net present value (see box below) of the public external debt of the indebted country, aims to free up resources that debtor countries can use to reduce poverty and invigorate growth.

Assistance under the HIPC Initiative is limited to countries that have per capita incomes low enough to qualify for World Bank and IMF concessional lending facilities and face unsustainable debt burdens even after traditional debt relief (see box, page 6). The vast majority of the eligible countries are in Africa.

Modifying HIPC

Following a review of the HIPC Initiative and extensive public consultations, a number of modifications were approved in 1999 to provide deeper, broader, and faster debt relief to eligible countries and to strengthen the links between debt relief, poverty reduction, and social policies.

But the enhanced HIPC Initiative is no panacea. Debt relief—no matter how generous—is only the first step to economic recovery for heavily indebted poor countries. These countries can achieve long-term debt sustainability only if they directly address the underlying causes that triggered the debt problem in the first place. To avoid slipping back into a situation where poverty-reducing investments are sacri-

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 below the prevailing market rate. The net present value of debt takes into account the degree of concessionality. It is defined as 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 reflecting the grant element.

ficed to mounting external debt repayments, these countries must use the debt-relief proceeds to create the basis for sustained growth and poverty reduction.

What has the HIPC Initiative achieved?

By July 2002, 26 countries had reached their decision points under the enhanced HIPC Initiative, with commitments for over $40 billion of debt relief (in nominal terms) over time. This initiative, along with other debt relief, will reduce these countries' external debts by about two-thirds, from $62 billion in net present value terms to $22 billion. Resources are being allocated to education; health care, including HIV/AIDS prevention and treatment; rural development and water supply; and road construction. Six countries—Bolivia, Burkina Faso, Mauritania, Mozambique, Tanzania, and Uganda—have received unconditionally all debt relief committed under the initiative. Two additional countries, Côte d'Ivoire and the Democratic Republic of the Congo, have been considered for HIPC relief on a preliminary basis and are expected to reach their decision points soon.

How the HIPC Initiative works

To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. Its efforts are complemented by concessional aid from all relevant donors and institutions and traditional debt relief from bilateral creditors, including the Paris Club.

During this phase, the country's external debt situation is analyzed in detail. If its external debt ratio, after the full use of traditional debt relief, is above 150 percent for the net present value of debt to exports (or, for small open economies, above 250 percent of government revenue), it qualifies for HIPC relief. At the decision point, the IMF and the World Bank formally decide on the country's eligibility, and the international community commits to reducing the country's debt to a sustainable level.

Once it qualifies for HIPC relief, the country must continue its good track record with the support of the international community, satisfactorily implementing key structural policy reforms, maintaining macroeconomic stability, and adopting and implementing a poverty reduction strategy (see page 7). Paris Club bilateral creditors reschedule obligations coming due, with a 90 percent reduction in net present value, and other bilateral and commercial creditors are expected to do the same. The IMF and the World Bank and some other multilateral creditors provide interim relief between the decision and completion points.

A country reaches its completion point once it has met the objectives established at the decision point. It then receives the balance of the debt relief committed. This means all creditors are expected to reduce the net present value of their claims on the country to the agreed sustainable level.

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.

Why not just forgive all the debt?

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 Poverty Reduction and Growth Facility (PRGF) and the HIPC Initiative, and the IMF would have to stop providing concessional support to its poorest members. ■

Poverty reduction

Supporting country-led efforts

In 1999, the replacement of the IMF's concessional lending facility, the Enhanced Structural Adjustment Facility (ESAF), with the better-focused Poverty Reduction and Growth Facility (PRGF) raised expectations about the IMF's role in the fight against poverty. Loans under the PRGF—like ESAF loans—carry very low interest rates, long repayment terms, and a grace period. The PRGF differs from the ESAF in that it is based more directly on the premise of a mutually reinforcing relationship between macroeconomic stability, structural reform, growth, and poverty reduction. Yet this focus on poverty was not entirely new: since the late 1980s, IMF advice to its members has increasingly emphasized pro-poor policies while recognizing that the IMF's traditional focus on macroeconomic stabilization—especially on price stability—also benefits the poor.

Demand for PRGF resources has been high. In recent years, more than 40 countries have had new PRGF arrangements or had ESAF arrangements transformed to include the new features of the PRGF. Overall in 2001, the IMF committed new PRGF loan resources of $2.7 billion, a record high, up from $1 billion in 2000. Last year's increase partly reflected approval of a few large new commitments. Current projections indicate that new commitments in 2002 could reach $2 billion. If high levels of new commitments continue, consideration will need to be given to mobilizing new PRGF loan and subsidy resources.

All poor countries seeking assistance under the enhanced HIPC Initiative or low-cost loans from the IMF or the World Bank are expected to prepare comprehensive poverty reduction strategies. These strategies—formulated by a country's government based on wide-ranging participation, including by civil society, donors, and international organizations, and spelled out in a poverty reduction strategy paper (PRSP)—now provide the basis for all concessional lending by the IMF and the World Bank.

There is no single blueprint for a country to follow in preparing its poverty reduction strategy. Rather, each country's PRSP should reflect its specific circumstances. But each PRSP should describe the poor's main characteristics and specify strategies for the medium and long terms that would have the highest impact on poverty reduction. And it should also identify realistic and trackable poverty reduction goals and set out macroeconomic, structural, and social policies for reaching them.

Locally produced PRSPs are expected to generate fresh ideas about how shared growth and poverty reduction goals can be reached and should help create a sense of ownership and national commitment to those goals. The IMF and the World Bank participate in the process and, along with other multilateral and bilateral donors, provide advice and expertise. But the strategies and policies should emerge from national debates in which the voices of the poor, especially, are heard.

Taking stock: the PRSP and the PRGF

Although implementation of the PRSP approach and the PRGF is still at an early stage, it is not too soon to take stock of lessons learned so far. The IMF and the World Bank together recently reviewed the first two years' experience with the PRSP approach, and the IMF reviewed experience with the PRGF. The reviews drew on internal evaluations and extensive external consultations, engaging those with firsthand knowledge of the PRSP process and PRGF-supported programs: participating governments, international organizations, other aid agencies, and civil society organizations worldwide. Respondents provided written evaluations and voiced their opinions at regional forums as well as at the "International Conference on Poverty Reduction Strategies," held in Washington, D.C., in January 2002, organized by the IMF and the World Bank.

Review of the PRSP process

Because only 10 full PRSPs were completed at the time, the review focused primarily on process and offered a tentative assessment of emerging content. While countries are completing their full PRSPs more slowly than originally expected, there is still enough information to begin defining "good practices." A second review, planned for 2005, should provide an opportunity to assess progress more fully, including the impact on poverty outcomes and indicators.

What were the review's main findings? The central one is that there is widespread support for the PRSP approach and broad agreement that its objectives remain valid. Most donors have indicated their intentions to align assistance programs with PRSPs, but more needs to be done to improve practices, especially to reduce the cost for low-income countries of mobilizing and using aid. It is noteworthy that the PRSP process has carved out a more prominent place for poverty reduction in policy debates. Data collection, analysis, and monitoring are becoming more systematic.

Supporting this, there is a growing sense of country ownership and more open dialogue within governments themselves and also between governments and civil society groups—even in countries that lack a well-established tradition of consultation. Nevertheless, the review saw much room for improvement, the main challenge being to promote broader and more substantive participation by domestic stakeholders. The quality of participation has varied widely from country to country. Discussions have often been limited to a narrow set of issues related to targeted poverty reduction programs, effectively excluding civil society organizations from the broader debate over structural reforms and macroeconomic policies. The review recommended that development partners increase technical assistance to bolster civil society's ability to participate fully and effectively in the PRSP process. The review also recognized the need to involve parliamentarians in preparing, approving, and monitoring country strategies.

Looking ahead, the focus must shift to implementation of PRSPs and the need to better understand the links between policies and poverty outcomes. The review suggested that efforts would have the biggest payoff in the following four areas:

- *Macroeconomic frameworks.* Every country's PRSP is underpinned by a macroeconomic framework in support of its growth and poverty reduction objectives. But attention needs to be given to setting more realistic growth targets that are in line with country circumstances and constraints, and more care needs to be given to identifying the sources of pro-poor growth

IMF expands antipoverty work in the former Soviet Union

After the breakup of the Soviet Union just over a decade ago, the seven lowest-income members of the Commonwealth of Independent States (CIS)—Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan—were confronted with the dual challenge of building new states and market economies. Most of these countries have made significant progress toward these goals during the past decade. But the complexity of the transition challenges has caused living standards to fall sharply and, in some cases, has made it very difficult to implement market-oriented reforms effectively.

The CIS-7 Initiative is designed to improve living standards in the former Soviet Union. At right, an agricultural market in Moldova, one of the target countries.

The IMF—together with the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, bilateral donors, and neighboring countries—recently launched the CIS-7 Initiative intended specifically to help reduce poverty and promote economic growth in these seven countries. With nearly 20 million people living in extreme poverty within their borders, these countries clearly still have some way to go in overcoming the economic and social disruptions that have occurred in tandem with the transition from centrally planned to market economies.

While each country obviously faces its own specific adjustment problems, the IMF and the other international financial institutions sponsoring the CIS-7 Initiative identified some common development challenges. In the area of political reforms, government capacity must be strengthened to resist corruption and deliver public services more effectively and accountably. All of these countries need more adequate health and education services for their people and must take action to fight the devastating human toll taken by diseases such as HIV/AIDS, tuberculosis, and malaria. Improved macroeconomic stability is key for establishing an environment for local businesses to plan, invest, and grow, and for helping attract technological know-how and capital flows from foreign direct investors to improve productivity and build a dynamic private sector. Enhanced regional cooperation—for example, in trade and energy—is indispensable in boosting the competitiveness of national economies and can be helpful in resolving regional disputes and dividing the cost of large infrastructure investments. Finally, urgent action is needed to reduce debt to sustainable levels.

The seven countries will be responsible for making headway in these areas by intensifying their development and reform efforts. But trade and development partners and creditors will complement this work by strongly supporting these countries in strengthening conditions for growth and poverty reduction. This assistance to the CIS-7 is expected to include low-cost loans, debt relief, or debt restructuring (where needed), as well as greater access to industrial countries' markets and promotion of direct investment. Development agencies plan to better coordinate the way they administer support under the CIS-7 initiative while also ensuring that this support is anchored in country-led poverty reduction programs. International and regional institutions intend to give added support through technical assistance and policy advice.

underpinning these targets. Poor countries must also pay more attention to their heightened vulnerability to external shocks by identifying in advance potential areas of vulnerability and appropriate social safety nets or other relevant policy responses.

- ***Prioritizing policy actions.*** Trade-offs and better prioritization of policy actions are needed to make poverty reduction strategies realistic, especially in the face of tight budget constraints. Uncertainties about their overall growth strategies, the costs of various actions, and available financial resources often make it difficult for PRSP countries to set priorities. Development partners need to provide more technical and financial assistance to countries building capacities for setting priorities.
- ***Poverty and social impact analysis.*** National capacity constraints and technical difficulties can hinder countries' ability to clearly link policy actions to either a comprehensive diagnosis of poverty or an analysis of their impact on the poor. Countries, with the assistance of development partners, should undertake more systematic poverty and social impact analyses of major policy changes.
- ***Public expenditure management systems.*** Countries need to assess the current state of these systems—which often face problems such as incomplete coverage, inappropriate classifications, limited capacity to track spending, and weak auditing—and develop realistic plans for improving them, seeking technical support as appropriate.

Review of the PRGF

Is the PRGF living up to expectations? To answer this, the IMF carried out a major review between July 2001 and February 2002 to assess the extent to which country ownership had been enhanced and PRGF-supported programs had been based on countries' poverty reduction strategies. Since the PRGF is only a few years old and arrangements run three years, the review was necessarily limited and focused primarily on program design. An assessment of whether PRGF-supported programs are achieving their poverty-reduction or growth goals will have to await the later review scheduled for 2005. Among the major findings of the recent review were the following:

- The composition of budgeted and actual public spending is becoming more pro-poor and pro-growth in countries with PRGF-supported programs. These countries are allocating a larger share of government spending to education and health care, and PRGF-supported programs are incorporating measures to improve the efficiency of spending in these areas.
- PRGF-supported programs are characterized by greater fiscal flexibility—whereby the fiscal framework permits an increase in poverty-reducing spending when additional resources are available—than the preceding ESAF-supported programs. PRGF-supported programs target noninterest public spending that is 2 percentage points of GDP higher, on average, than that targeted under the preceding ESAF-supported programs. PRGF-supported programs also show greater flexibility by accommodating more spending when foreign financing (including grants) is greater than expected, or by allowing additional domestic financing to compensate for shortfalls in external financing.
- Almost all PRGF-supported programs emphasize strengthening governance by improving public expenditure management. Most of these measures focus on budget control—in particular, keeping spending within the limits set in the budget. Others are designed to strengthen auditing procedures or anticorruption strategies.
- Around three-fifths of the country authorities responding to the survey said that the PRGF provided more opportunity to influence program design than in the past and that IMF resident representatives and Washington staff were increasingly engaged in the national dialogue associated with the PRSP process.
- Conditionality was substantially streamlined in PRGF-supported programs, in line with an overall streamlining of structural conditionality in all IMF arrangements. The review found that there were more performance criteria, prior actions, and struc-

Farmers in Cambodia, a PRGF country, are experiencing the country's worst drought in recent history.

tural benchmarks in PRGF arrangements than there had been for the same countries under the ESAF.

While the review concluded that PRGF-supported programs have had a promising beginning, it found that there is scope for a more systematic application of best practices:

- More systematic discussion and analysis of macroeconomic frameworks and policies are needed—including the sources of growth, alternative policy choices, and the constraints and trade-offs involved.
- The IMF and the World Bank need to make continued improvements in differentiating between their roles and coordinating their activities. IMF documents and joint assessments should more fully report conditions set by other donors to provide a better picture of total donor conditionality.
- Further efforts are needed on public expenditure issues—including improving the quality and efficiency of government spending, and strengthening public expenditure management systems.
- Documentation should clearly set out the PRGF's role in the country's overall poverty reduction strategy as well as the options considered and the commitments made by government officials.

Beyond the design of PRGF-supported programs, the review pointed to other improvements that are needed, including

- an increased focus on the sources of growth in PRGF-supported programs;
- more extensive and effective communication with government officials, development partners, and civil society in countries on the policy options for PRGF-supported programs;
- PRGF documents that routinely describe the poverty and social impact analyses being carried out, as well as discussions with country authorities on the social impact of key reforms;
- further capacity building to develop and assess macroeconomic frameworks, analyze poverty profiles, and conduct poverty and social impact analyses; and
- an examination of the structure of the PRGF and its adequacy in meeting the diverse needs of low-income countries. ■

Social dimensions of IMF financing

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. The IMF recognizes that successful macroeconomic programs must also 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 reason for attention to social policy issues is twofold: it reflects the recognition that "country ownership" is necessary if the programs are to succeed and that good health and education contribute to, and benefit from, growth and poverty reduction.

In pursuing this aspect of its work, the IMF collaborates extensively with other institutions, 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 advises 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 and social impact analysis

The IMF is committed to integrating poverty and social impact analysis in PRGF-supported programs. The purpose of this analysis is to assess the implications of key policy measures on the well-being of different social groups, especially the vulnerable and the poor.

When such analysis indicates that a particular measure (for example, currency devaluation) may adversely affect the poor, such effects would be addressed through the choice or timing of policies, the development of countervailing measures, or social safety nets. Safety nets built into IMF-supported programs have included subsidies or cash compensation for particularly 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.

For those countries that are able to do so, poverty and social impact analyses ideally should be undertaken in making policy choices in the development of poverty reduction strategy papers (PRSPs). For those countries where national capacity is weak, the IMF will draw on poverty and social impact analysis done by the World Bank and other development partners in the PRSP process.

Financial architecture

Fast-changing world economy drives IMF reforms

Much of what the world now knows about the complexity and dynamism of global finance was learned—sometimes the hard way—in the 1990s. The decade was a testament to the power of the markets to create wealth and destroy it. The suddenness, velocity, and scope of crises in the 1990s were unprecedented, but, in their wake, they yielded two lessons: crises need to be prevented whenever possible and resolved quickly when they do erupt.

These dramatic changes in the world economy and the lessons they imparted are at the heart of the reforms the IMF has advocated and itself absorbed in recent years. These reforms have emphasized the critical importance of more information and greater transparency, highlighted the role that global standards and accepted codes of good practices can play in improving performance and increasing levels of trust, underscored the need for expanded cooperation among countries and international organizations, and called for heightened vigilance over the types of vulnerabilities that can trigger crises.

More information, please

Markets, as recent crises have demonstrated, don't like surprises. A dearth of information or the belated discovery of misinformation fosters unease, even alarm. The IMF translated this early lesson from the Asian crisis into action, encouraging countries to provide more information—and more reliable data—to markets. High on its list of reforms was a series of statistical initiatives:

Special Data Dissemination Standard (SDDS). Created in 1996, the SDDS is a voluntary standard whose subscribers—countries with market access or seeking it—commit to meeting internationally accepted levels of data coverage, frequency, and time-

The openness revolution

Some of the most dramatic changes over the past decade have taken place in information exchange. Technological changes have revolutionized the speed and ease with which information can be shared and have democratized the production and consumption of data. What was once arcane and in the province of the highly specialized is now, via the Internet, available to everyone with access to a computer.

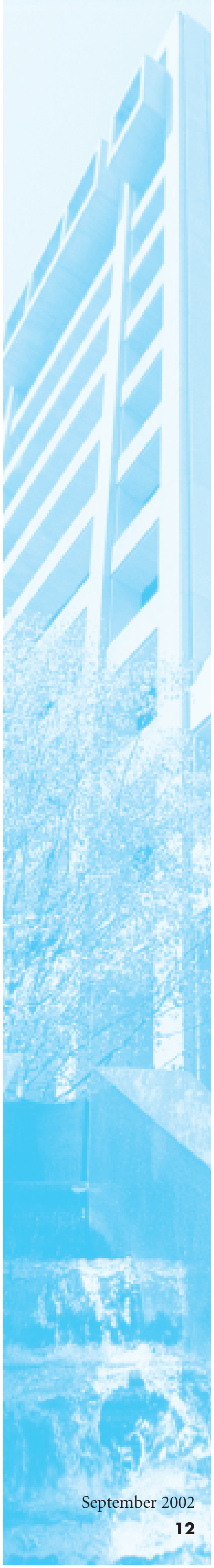
In an age in which global communications make the world very small indeed, the availability of information and commitment to openness matter more than ever. In the mid-1990s, when the IMF first began encouraging its members to be more open with their economic and financial data, its carefully vetted *Annual Report* contained virtually the only publicly available summary of the regular (Article IV) consultations the IMF conducted with its member countries on the current state and prospects of their economies.

By 2000, the IMF's Internet site—www.imf.org—was serving as the chief vehicle for what amounted to a sea change in the openness of the IMF and its membership. The website now posts Public Information Notices summarizing the IMF Executive Board's discussions of Article IV staff reports for many member countries. It has become a key tool for the authorities and the IMF to share with the public the goals and means of country adjustment efforts. Documents outlining the authorities' intentions are now routinely published, as are more than half of IMF staff reports on the use of IMF resources.

The IMF has also become much more transparent about its own policies and operations. Staff papers outlining the pros and cons of various policy issues and summaries of Executive Board discussions of these papers are also now routinely released. On some key issues of wide public interest, the IMF uses its website to initiate a dialogue—soliciting opinions or offering early drafts of papers for comment.

The IMF is also expanding its outreach to parliamentarians, nongovernmental organizations, and other interested groups to improve public understanding of its policies and operations and to broaden and deepen its dialogue with these groups.

In 2001, the IMF took a formal step to improve the transparency and effectiveness of its policies and procedures when it created the Independent Evaluation Office (see page 18). The office, intended to complement traditional internal evaluations, selects several major topics for review annually, carries out these reviews, and posts its findings on the Internet.



liness. Subscribers also agree to issue calendars on data releases and follow good practices with regard to data quality and integrity. Information on subscriber data dissemination practices is posted on the IMF's website on the Data Standards Bulletin Board, which is linked to subscriber websites.

General Data Dissemination System (GDDS). For countries that do not have market access but are eager to improve the quality of their national statistical systems, the GDDS offers a "how to" manual. Voluntary participation allows countries to set their own pace but provides a detailed framework that promotes the use of widely accepted methodological principles, the adoption of rigorous compilation practices, and ways in which the professionalism of national systems can be enhanced. Participating countries post their detailed plans for improvement on the Data Standards Bulletin Board, thus permitting both domestic and international observers to view their progress.

Data Quality Assessment Framework. The success of both the SDDS and the GDDS, and the growing recognition that good statistics are essential for effective policymaking, spurred the IMF, in consultation with national statistical offices, other international agencies, and data users, to take a further step and evaluate the quality of data as well. This new framework, developed in 2001, provides the means to assess data integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility.

Role of standards and codes

Better data, while important in themselves, are an element of a larger project. Agreement on and implementation of broadly agreed standards of accepted practices and codes of good behavior provide yardsticks to measure the quality of policies and performance. They help national authorities formulate and assess policies and permit market participants to evaluate how well a country is doing. Widely accepted standards and codes also have a ripple effect by encouraging greater transparency, better governance, and improved accountability and policy credibility. In cooperation with a wide range of international institutions and with input from numerous national authorities, the IMF has been active in both developing standards and codes and incorporating them in their annual review (surveillance) of member country economies.

In 1999–2000, the IMF, with the World Bank, launched a joint program of voluntary and summary reports in a wide range of areas in which the two organizations have long-standing expertise. These Reports on the Observance of Standards and Codes (ROSCs)—about 70 percent of which are subsequently published—principally examine three broad areas: transparency, financial regulation and supervision, and corporate governance (including accounting, auditing, and insolvency). In these areas, the ROSCs promote the following:

- ***Transparent governmental policymaking and operations.*** The underlying assumption is that better-informed publics are more likely to hold their governments accountable for their policies and that investors, armed with better data and a standard against which to evaluate them, are more likely to invest wisely. Key tools are the IMF's statistical initiatives (SDDS and GDDS) and codes of transparency in monetary, financial, and fiscal policies.
- ***Stable financial sectors.*** As a rule of thumb, financial sectors are as sound and consistent as their regulatory environments are vigilant. The IMF and the World Bank each year undertake a certain number of Financial Sector Assessment Programs (FSAPs). These detailed analyses review and test financial sectors for vulnerabilities, evaluate how risks are managed, weigh possible technical assistance needs, and help countries prioritize policy responses. In addition, ROSCs evaluate banking supervision, securities and insurance regulation, and payments systems, as well as the transparency of monetary and financial policies.
- ***Healthy corporate sectors.*** With the private sector serving as the engine of growth in most economies, the health of the corporate sector is a critical concern. The World Bank typically takes the lead in assessing the quality of corporate governance, the adequacy of accounting and auditing standards, and the state of insolvency procedures and creditor rights.

When are countries vulnerable?

More information and more openness can go a long way toward averting the shocks that ignite serious problems, but as the IMF and other institutions surveyed the damage done by recent crises, they also asked another question: how do we know when a country is at risk? The crises of the 1990s were different, reflecting a larger role for private sector financing, greater scope for cross-border contagion, and stronger links between external financing difficulties and distress in domestic financial and corporate sectors. All of this suggested the value of taking a fresh, hard look at the sources of vulnerability and the tools available to identify problems before they become crises.

As a first step, it was clear that the IMF needed to monitor capital market developments more closely and more continuously. This prompted the creation of the International Capital Markets Department in 2001 to complement the work of the organization's traditional regional (area) and functional departments. As a result, country vulnerability assessments have been strengthened and now cover a more comprehensive set of inputs, including the impact of the latest changes in the global economic and financial environment, early warning systems and indicators, and ROSC and FSAP findings (when available).

An IMF Executive Board review of vulnerability assessments also pointed to the need for more data on foreign exchange exposures in financial and nonfinancial corporate sectors and more information on country financing needs. It urged international institutions to convey greater urgency when they discussed perceived vulnerabilities with national authorities, and it called for continued work on the formulation of policy guidelines. In recent years, detailed guidelines have been drawn up on public debt management (in consultation with the World Bank) and foreign reserves management (in close collaboration with both member countries and other international institutions).

Strengthening financial sectors

As the Asian crisis demonstrated, weaknesses in the financial sector can both amplify crises and cause them. Given the critical role that resilient financial sectors can play in heading off crises and the fuel that ailing financial sectors can add to the fire when economies are under siege, the IMF has been giving added attention to this sector. It has redirected its FSAP resources to large economies and key emerging markets that could have a systemic impact on the world economy. And it has supplemented the FSAPs with newly devised “core” and “encouraged” Financial Soundness Indicators. These indicators are meant to guide country surveillance efforts and alert national authorities to the qualities that characterize healthy financial sectors. The core indicators focus on crucial elements in the banking system, while those that are encouraged take a more detailed look at the banking sector and address aspects of nonbank financial, corporate, household, and real estate sectors.

Assessing offshore financial centers

Traditionally, global finance was the sum of its national parts, but the rise in offshore banking centers and a sharp increase in the volume of funds channeled through these centers have added another dimension—and level of complexity—to global finance. In response to increasing calls for more information about offshore banking activities, the IMF has helped these centers gather data and conduct self-assessments, providing technical assistance where needed.

Money laundering and financing of terrorism

Money laundering and its now allied concern, the financing of terrorism, affect both onshore and offshore financial centers. The IMF’s own work in this area began in the context of financial abuses that threatened the integrity and stability of the international financial system. The events of September 11 lent new scope and urgency to the work and hastened efforts to better coordinate responsibilities among international institutions to implement the recommendations of the Financial Action Task Force (FATF) on Money Laundering. The IMF, whose core expertise lies in economic assessment and in helping member countries build up the quality and effectiveness of their supervision and regulation of financial institutions, has focused its efforts on relevant supervisory principles, closer cooperation with major anti-money-laundering groups; increased technical assistance; and greater attention to anti-money-laundering issues in its surveillance and other activities.

100
100
50
50

Specifically, the staffs of the World Bank and the IMF have prepared a methodology to assess whether adequate controls and procedures are in place to prevent abuse; the document is currently being piloted as part of the institutions’ financial sector assessments. Their Boards will consider whether to add the FATF 40+8 Recommendations to the list of standards that includes preparation of a ROSC to combat money laundering and the financing of terrorism, and possible mechanisms for carrying out such assessments. IMF and World Bank staff are also working closely with the Financial Action Task Force on Money Laundering to adapt its recommendations so that they are consistent with the work being done in the context of the ROSCs.

When to liberalize the capital account

For many of the IMF's emerging market economies, two important questions are when and how to liberalize their capital accounts. Access to capital markets provides the opportunities to finance the investment that is essential for growth, but the crises of the past decade are also vivid reminders that the transition can be tricky and the risks large.

What should countries do to lay the proper groundwork for opening their capital accounts, and how can they sequence reforms to enhance stability and minimize volatility?

The IMF, in the course of its annual consultations with member countries, has helped them gauge their readiness for capital account liberalization and prioritize financial sector reforms; it has also underscored the key role played by transparency. Although no foolproof recipe for liberalization exists yet, experience in many countries suggests that liberalizing longer-term flows (notably, foreign direct investment) first may be safer than starting with the more volatile short-term flows.

Resolving crises

Crises will occur no matter how many preventive measures are in place. The IMF's goal is to reduce the number and severity of these crises and help countries deal decisively and effectively with those that do arise. In April, the IMF's Managing Director, Horst Köhler, laid out a four-point work program to strengthen the IMF's framework for crisis resolution. It called for increased capacity to assess the sustainability of a country's debt, a clear-cut policy on access to IMF resources in capital account crises, enhanced means to secure private sector involvement in resolving financial crises, and continued work on a more orderly and transparent legal framework for sovereign debt restructuring.

Debt sustainability. The ability to distinguish between types and degrees of debt crises is key to tailoring an appropriate response. To provide effective assistance, the IMF must be able to differentiate among cases where restructuring is needed and a substantial write-down of claims may be in order; where the official sector will need to encourage creditors to reach voluntary agreements; and where it is appropriate for the IMF, along with others, to provide financing in support of a member's adjustment program and to help restore confidence and catalyze the resumption of private capital flows.

When is debt sustainable? Hard and fast answers are typically hard to come by, but the IMF is working to strengthen its analytical tools to ensure that judgments are well informed. It will be looking in greater detail at the elements that go into these decisions—and testing the underlying assumptions about earnings growth, interest rates, and the primary balance of spending and income.

Access to IMF resources. For members coping with capital account crises, there is often a wide gap between their large immediate financing needs and the IMF resources, as defined by quotas, that would normally be available to them. A clearer policy on access limits would allow the IMF to both provide the scale of financing needed in such cases and reinforce incentives for responsible policies and prudent assessment of risk.

Strengthened tools for involving the private sector. Within existing legal frameworks, how can the private sector play a more significant role in resolving financial crises? Alternative financing tools can help manage crises, but the IMF's work in this area suggests that individual circumstances must be examined carefully and the benefits weighed against possible risks, including unsettled markets and a transfer of risk from sovereigns to the domestic financial systems. Where a restructuring of sovereign debt is needed, it is crucial to contain the erosion of confidence and keep the process orderly.

Sovereign restructurings. These become necessary when countries run up unsustainable debt burdens. They are infrequent but can be unusually costly because no legal framework currently exists to handle this process in a timely, predictable, and orderly manner.

Public information on IMF finances

In recent years, the IMF has significantly expanded the volume, quality, and timeliness of information available on its finances to the public. During financial year 2002, a new edition of a pamphlet providing detailed information on the IMF's financial structure was published (*Financial Organization and Operations of the IMF*, IMF Pamphlet Series, No. 45, 6th ed., 2001). The IMF also provides background and current data on its financial activities on its website (http://www.imf.org/external/fin.htm), including

- current financial position
- IMF liquidity and sources of financing
- SDR valuation and interest rate
- rates of charge on IMF loans and the interest rate paid to creditors
- country information on
  - current lending arrangements
  - loan disbursements and credit outstanding
  - loan repayments and projected obligations
  - arrears
  - SDR allocations and holdings
- financial statements

In November 2001, IMF First Deputy Managing Director Anne Krueger renewed the discussion on what could be done to provide for a speedier and more orderly way to resolve these problems. Her proposal to create a sovereign debt restructuring mechanism (see box, below) has set off a lively debate about the form the mechanism should take. The IMF is expected to continue its work on this reform in advance of its 2002 Annual Meetings, where the SDRM proposal is expected to be taken up. ■

When countries can't repay their debts

Countries, like individuals, may run up debt and find themselves unable to keep up the payments on it. To avoid defaulting, they must restructure their debt. But, unlike bankruptcy provisions in domestic situations, the global financial system lacks a legal framework for sovereign debtors and their creditors to restructure debt in an orderly and timely way. One major challenge to sovereign debt restructuring stems from the way international capital markets have evolved over the past 20 years or so. They have become more integrated and there has been a shift from syndicated bank loans to bond issues. As a result, sovereign borrowers are increasingly able to issue debt in a range of legal jurisdictions, using a variety of instruments, to a diverse and diffuse group of creditors. Although this has expanded the sources of financing available to emerging market countries, it has also exacerbated the problems of coordination, collective action, and equal treatment of creditors when a restructuring becomes necessary.

IMF proposes a solution

In November 2001, IMF First Deputy Managing Director Anne Krueger proposed a sovereign debt restructuring mechanism (SDRM) to facilitate the orderly, predictable, and rapid restructuring of unsustainable sovereign debt. Since November, the proposal has undergone various changes, and the IMF's decision-making role is envisaged to be smaller in the latest incarnation. The resulting twin-track —that is, statutory and contractual—approach has since received the endorsement of the international community.

For the mechanism to be effective, there must be incentives both for debtors to address their problems promptly and for debtors and creditors to agree quickly on the restructuring terms. The IMF's policies spelling out the availability of its resources before, during, and after the restructuring process would help shape these incentives. However, use of the mechanism would be for the debtor country to decide and not for the IMF or a country's creditors to impose. The debtor country and a majority of its creditors would have the essential decision-making authority.

How the mechanism would work

The first track of the SDRM would involve greater use of collective action clauses in sovereign bond contracts. The second track would involve creating a statutory mechanism to empower a qualified majority of a country's creditors to negotiate a restructuring agreement that would then be binding on all of the country's creditors. There would also be provisions to prevent creditors from pursuing litigation against debtors while a restructuring agreement is being negotiated; safeguards to protect creditor interests during this period; and a mechanism that would encourage new financing by guaranteeing that fresh private lending would not be restructured. The statutory approach would use a treaty obligation—probably achieved through an amendment of the IMF's Articles of Agreement—that would provide for legal uniformity in all jurisdictions.

To coordinate a debtor's varied creditors, a framework must be created that will aggregate claims across instruments for voting purposes while taking account of the seniority and varying economic interests of the creditors. As part of this framework, a forum is envisaged for the resolution of disputes between a sovereign debtor and its creditors as well as disputes among creditors. The dispute resolution forum would be small, have a limited role, and be independent in its membership and operation.

The international community has learned its lesson from the turmoil that emerging market economies have experienced in recent years: cooperation helps the global financial system work more smoothly. To address the protracted, disorderly, and costly restructuring process, the IMF will continue to examine the legal, institutional, and procedural aspects of establishing the sovereign debt restructuring mechanism.

For a fuller explanation of the proposed SDRM, see the IMF's website (www.imf.org).

IMF First Deputy Managing Director Anne Krueger first proposed a plan for restructuring sovereign debt in November 2001.

Effective surveillance and crisis prevention

Helping IMF members reduce vulnerabilities, promote stability, and foster growth

In today's global economy, the economic developments and policy decisions of one country may affect many other countries, and financial market information can be transmitted around the world instantaneously. In this environment, 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.

How surveillance is conducted

Country surveillance. As a result of a recent IMF Executive Board decision, the IMF will generally conduct regular consultations every year 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, policies 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, features comprehensive analyses of prospects for the world economy, individual countries, and regions and also examines topical issues. The quarterly *Global Financial Stability Report (GFSR)* provides timely coverage of mature and emerging financial markets as part of the IMF's stepped-up tracking of financial markets. The *GFSR* seeks to deepen policymakers' understanding of the potential weaknesses in the global financial system and identify the fault lines that could lead to crises.

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 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, the Gulf Cooperation Council, the Common Market for Eastern and Southern Africa, and the Meetings of Western Hemisphere Finance Ministers.

Improving the effectiveness of surveillance

Provision of information. Timely, reliable, and comprehensive data are essential. The IMF encourages countries to introduce greater policy transparency, for instance, by providing detailed data on external reserves, related liabilities, and short-term external debt. Members having, or seeking, access to international capital markets can now do this through the Special Data Dissemination Standard (SDDS) (see page 11).

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

Focus. In light of the globalization of capital markets, the IMF recognizes that its focus must extend beyond short-term macroeconomic issues. Surveillance must involve 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 the risks of contagion. Conclusions drawn from the IMF–World Bank Financial Sector Assessment Program 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. Following internationally recognized standards, or codes of good practices, can improve countries' economic and financial policies and systems and thereby strengthen the international financial system. Monitoring countries' observance of international standards increases their incentives to adopt and adhere to such standards. (See discussion on ROSCs, page 12.) Thus, IMF surveillance provides a framework for discussing with national authorities the implications of assessments of adherence to standards and codes.

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 and has made its own policy advice more transparent. To this end, the IMF Executive Board has agreed to do the following:

- Publish information on countries' IMF-supported programs, including letters of intent, memorandums of economic and financial policies, staff reports, and Chairman's statements on Executive Board discussions of such programs.
- Publish information about IMF surveillance of members, including public information notices (PINs), and Article IV consultation reports where the member agrees.
- Publish staff reports on policy issues, together with PINs, based on case-by-case decisions of the Board.
- Carry out internal and external evaluations of IMF practices.
- Continue dialogue and consultation with the public on IMF activities—to that effect, the Managing Director's work program statement was published for the first time in June 2001.
- Release more financial information about the IMF (for example, financial statements are posted on the IMF's website). ■

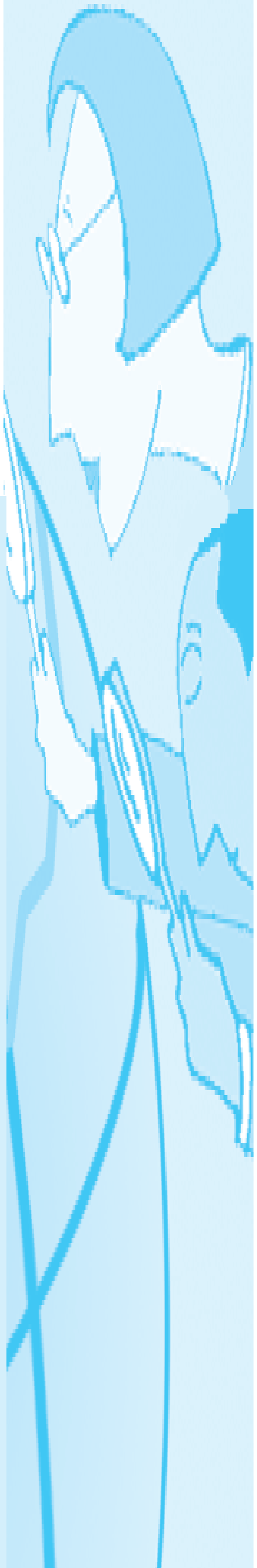
Biennial review of IMF surveillance

Every two years, the IMF assesses the implementation of its surveillance and examines the continued validity of the principles that guide it, as originally set out in a 1977 Executive Board decision. In its latest review of April 2002, the Executive Board began to take stock of the evolution of surveillance—both the framework within which surveillance has taken place and its actual implementation. The Board noted that coverage had expanded over the years—from an original focus on exchange rate, fiscal, and monetary policy, and the exchange regime to structural policies, financial sector issues, institutional issues, and more comprehensive and detailed assessments of countries' crisis vulnerabilities, with greater attention to capital account and external debt issues. The broadened framework was considered a necessary and positive move to adapt to a changing global environment, most notably to the rapid expansion of international capital flows. Surveillance had generally achieved the dual objectives of wider coverage and continued focus on key issues. Issues covered in Article IV consultations were generally determined by their macroeconomic relevance in country-specific circumstances. The current procedures for global surveillance are working well, and multilateral surveillance of capital markets has been improved by the creation in 2001 of the IMF's International Capital Markets Department.

Given this record of coverage and focus, the IMF Executive Board identified a number of specific areas where further efforts were needed to ensure that IMF policy advice was sound and persuasive.

- More candid and comprehensive assessments of exchange arrangements and exchange rates within the framework of macroeconomic policies should become the normal practice throughout the membership.
- Coverage of financial sector issues should be brought up to par with coverage of other areas of surveillance.
- Vulnerability assessments and analysis of debt sustainability should be improved, particularly through the use of meaningful stress tests and alternative scenarios.
- Coverage of institutional issues, such as public sector and corporate governance in certain countries, had sometimes been hampered by a lack of expertise and should be strengthened. Work on standards and codes and Reports on the Observance of Standards and Codes were essential to meeting this objective.
- Structural issues outside the IMF's traditional areas of expertise were, at times, key to a country's macroeconomic situation and, thus, needed to be addressed. The IMF should make effective use of the expertise of appropriate outside institutions, in particular the World Bank.
- The IMF can enhance the focus of surveillance by concentrating on countries whose trade policies have either appreciable global or regional influence or significant deleterious effects on domestic macroeconomic prospects.
- Results of multilateral surveillance exercises and the IMF's comparative advantage in cross-country analyses should be reflected in bilateral surveillance in a comprehensive and consistent manner. Particular attention should continue to be paid—in the Article IV consultations of the largest economies—to the systemic impact of their policies.
- Surveillance in program countries should be considered further, with a view to ensuring that Article IV consultations with these countries provide an effective reassessment of economic conditions and policies.

Sound advice on economic policy objectives complemented with discussions with country authorities on alternative objectives and on social, political, and institutional factors would enhance ownership of policy recommendations and increase the likelihood of successful policy implementation.



Independent Evaluation Office

Evaluators look at prolonged IMF borrowing, fiscal reforms, and capital account crises

The Independent Evaluation Office (IEO), established by the IMF's Executive Board in July 2001, provides objective and independent evaluations of IMF policy and operations. It is independent of IMF management and operates at arm's length from the IMF's Executive Board. It enhances the learning culture of the IMF, promotes understanding of its work, and supports the IMF's Executive Board in its governance and oversight. There is a strong presumption that the IEO's evaluation reports will be published after their consideration by the IMF's Executive Board.

Since it started its operations in the fall of 2001, the IEO has been working on three projects.

Prolonged use of IMF resources. Some 25 countries have been indebted to the IMF for more than 30 years out of the past 50. Sixteen countries have been under IMF-supported programs for 12 years or more out of the past 18. Such prolonged use contradicts the mandate set forth in the IMF's Articles of Agreement. Drawing on case studies of Pakistan, Senegal, and the Philippines, along with cross-country analyses, this project aims to answer the following questions: What are the causes of this pattern of repeat use of IMF resources? Are there specific program-design or other weaknesses that might have contributed to the pattern? What costs has repeat use entailed for the borrowers, for the IMF, and for the rest of the membership? The project will also assess possible remedies—whether in the design of lending facilities and programs, in the IMF's internal governance, or in the division of labor with providers of long-term financing. The IEO released a final issues paper and terms of reference on the prolonged use of IMF resources in March 2002.

Staff of the IEO (from left): Ali Mansoor, David Goldsbrough, Montek Singh Ahluwalia (Director), Tsidi Tsikata, Isabelle Mateos y Lago, and Kevin Barnes.

Fiscal adjustment in IMF-supported programs. Fiscal adjustment, especially in low-income countries, has long been the subject of criticism largely because it involves severe trade-offs between stability and growth, or stability and social expenditures. Often, these trade-offs are not adequately articulated or quantified and involve distributional issues that are highly sensitive politically. Based on a sample of (mainly low-income) countries that have limited access to private international capital markets, the study is examining the major features of fiscal program design, the dialogue between IMF staff and the country authorities and other groups, the extent of country ownership, and the results in terms of the efficiency, sustainability, and social impact of the fiscal adjustment. The IEO released a final issues paper and terms of reference for the evaluation of fiscal adjustment in IMF-supported programs in mid-June 2002.

Role of the IMF in a group of recent capital account crises cases. Beginning with Mexico in 1994, a number of emerging market economies have been affected by currency crises, against the background of increasing financial market integration in recent years. When the IMF was called in to help resolve these crises, it was sometimes criticized for failing to mitigate the adverse consequences of the associated rapid and substantial capital flow reversals. The severity of output loss in some of the affected countries and the impact the crises had on the global economy have generated interest in how the IMF handled the past crises and how it should handle future ones. The study, focusing on Brazil, Indonesia, and Korea, evaluates the effectiveness of both the IMF's role in spotting vulnerabilities during the pre-crisis period and of IMF-supported programs in resolving the crises. The proposed country cases represent contrasting examples of the factors underlying a crisis and also of outcomes. The IEO released a final issues paper and terms of reference for the capital account crises cases evaluation in mid-June, 2002.

More information on the scope of these projects and on the IEO's work program is available on the IEO's website at www.imf.org/ieo. ■

Conditionality

IMF reviews its approach to conditionality, emphasizes country ownership of reforms

When the IMF commits its financial support to a member country, the country is expected to implement policy adjustments and reforms to correct the underlying problems that gave rise to its balance of payments difficulties and its need for assistance.

Why is it necessary?

Conditions for financial support help ensure that borrowing countries solve their external balance of payments problems in an orderly way, without resorting to measures that would harm their own or other countries' prosperity. By meeting the conditions, a country is assured of continued financing.

To safeguard its resources, the IMF must be sure that the policy adjustments required to achieve medium-term sustainability are being undertaken so that the country can eventually repay its loans.

How should conditionality be applied?

A flexible approach to conditionality is called for because the IMF must take care to treat all its members equitably while considering each country's circumstances and problems. Conditions should be focused on those policy measures that are critical to achieving the program objectives and should be applied particularly sparingly outside the IMF's core areas of responsibility.

How is it monitored?

The IMF requires a "letter of intent" or a memorandum from the country's authorities outlining their policy intentions during the program period; any policy changes they will make before the program can be approved, if necessary; and objective indicators that show whether the country has complied with specific performance criteria. The IMF periodically reviews a country's progress by assessing if its policies are consistent with the program objectives.

How has IMF conditionality changed?

Conditionality has evolved over the IMF's history as the circumstances and challenges facing its members have changed. Since the 1950s, the IMF has attached conditions to its lending, focusing initially on monetary, fiscal, and exchange rate policies.

Beginning in the late 1980s, the IMF increasingly emphasized the need to achieve adjustment through improvements in the supply side of the economy. This raised the issue of how IMF-supported programs should try to address structural bottlenecks. The IMF's response was to increase structural conditionality. Consequently, the average program involved 2 or 3 structural conditions a year in the mid-1980s, climbing to 12 or more by the second half of the 1990s.

The increase in the number of conditions raised concerns that the IMF might be overstepping its mandate and expertise. Excessively detailed policy conditions can undermine a country's sense that it is in charge of its own reforms. Without such "ownership," reform will not happen.

Moreover, poorly focused conditionality can overburden countries attempting to implement nonessential reforms at the expense of reforms truly needed for economic growth and continued access to IMF financing.

To ensure continued effectiveness, the IMF has regularly reviewed developments in conditionality. In its latest review, which began in September 2000, the IMF took steps to streamline conditionality to make it more efficient, effective, transparent, and focused. The review also aimed to enhance the effectiveness of programs by concentrating on those conditions that are critical to the success of countries' macroeconomic objectives while taking account of their decision-making processes and ability to carry out reforms.

- **September 2000:** The IMF 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.
- **March 2001:** Papers prepared by IMF staff were posted on the IMF website to invite public comment on the principles and issues related to conditionality. Country officials, academic experts, and representatives of other organizations also added their views. Among their suggestions were the need to pay attention to the sequence and pace of policy implementation and the importance of a clear and coherent strategy for assistance from the international community.
- **April 2002:** The IMF Executive Board agreed on the general principles to be embodied in new conditionality guidelines. These guidelines are to be finalized in the fall of 2002.

Can country ownership be strengthened?

Country authorities should be involved in the early stages of designing a program. They must be convinced that the reforms can be achieved and are in the country's best interests. Moreover, ownership should involve not only the executive branch of a country's government but also its parliament and other major stakeholders.

The IMF should be open to programs that differ from the staff's preferred options, as long as the core objectives of the program are not compromised.

What if a country is not fully committed?

The IMF has to strengthen its analysis of political economy issues to better understand what might block or weaken program implementation. It should develop a more effective dialogue on feasible policy options and become more selective in supporting programs.

In countries with entrenched structural problems in which the IMF is likely to be involved for a considerable period, it is desirable for the country to take charge of building a consensus to strengthen national ownership of effective policies.

IMF technical assistance could be redirected toward the medium and long term and aim at improving countries' capacity building (including program design). This would help countries take charge of their economic policies.

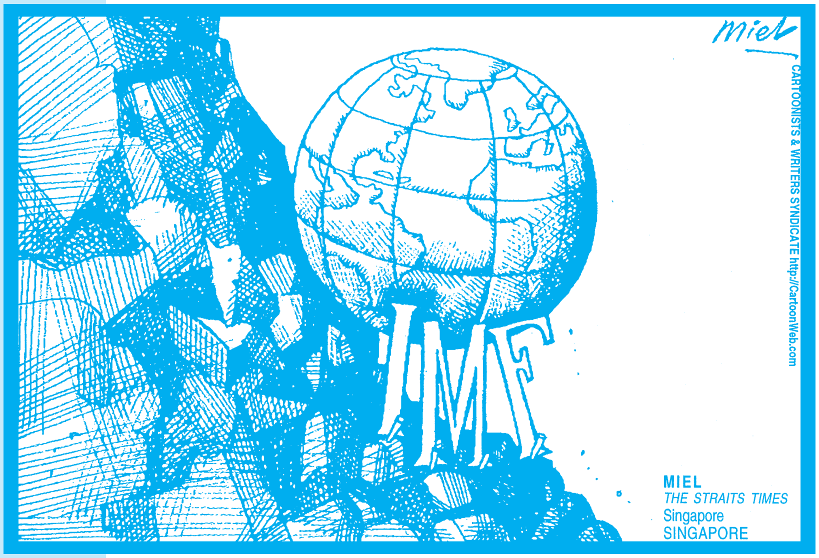
A country's authorities should have primary responsibility for communicating policy intentions and program content to the public, with the IMF playing a supporting role. ■

Financial facilities

IMF borrowing and lending

The volume of financing that the IMF has provided to its member countries has fluctuated significantly over time. The oil shock of the 1970s and the debt crisis of the 1980s were both followed by sharp increases in IMF lending. In the 1990s, the transition process in Central and Eastern Europe and the crises in emerging market economies led to another surge in the demand for IMF lending.

Only countries that are members of the IMF can borrow. Membership in the IMF is practically universal, currently comprising 184 countries.



CARTOONISTS & WRITERS SYNDICATE http://CartoonWeb.com

MIEL
THE STRAITS TIMES
Singapore
SINGAPORE

Why and how does the IMF lend?

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" on page 32). The IMF's Executive Board must approve financial assistance.

The IMF extends financing through three channels:

- Regular financial assistance is made available—subject to interest at the IMF's standard rate of charge—through a number of policies and facilities designed to address specific balance of payments problems.
- The IMF provides low-interest loans to low-income member countries through its Poverty Reduction and Growth Facility (PRGF), which helps them restructure their economies to increase growth and reduce poverty. The IMF also provides grants or interest-free loans to qualifying members under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to help reduce their external debt to sustainable levels. (For more information on the PRGF and the enhanced HIPC Initiative, see page 7.)
- The IMF can also create international reserve assets by allocating SDRs to members, which they can use to obtain foreign exchange from other members and to make payments to the IMF (see page 28.)

Financing is provided under different facilities and policies (see table, page 21). The main ones are the credit tranche policies, which address members' short-term, cyclical balance of payments difficulties, and the Extended Fund Facility (EFF), which focuses on external payments difficulties arising from longer-term structural problems. Loans under these facilities can be supplemented with very short term resources under the Supplemental Reserve Facility (SRF) to assist members experiencing a sudden and disruptive loss of capital market access.

The IMF levies charges on the financing. Charges and repayment periods vary by facility. The amount of financing a member can obtain from the IMF is generally based on the size of its quota.

The IMF has also developed special facilities that provide additional assistance for certain specific balance of payments difficulties, such as following a conflict or a natural disaster.

To discourage excessive use of IMF funds and free up funds for use by other members, the IMF levies surcharges on credit outstanding above a threshold level. The IMF also levies surcharges on SRF resources.

The IMF has introduced accelerated repayment schedules to encourage early repayment of IMF financing. Members are expected to repay on the earlier schedule (in advance of the standard repayment schedule). Members unable to meet the earlier repayment schedule may request an extension, but the repayment schedule cannot be extended beyond the standard repayment schedule.

Where does the IMF get its money?

The capital subscriptions of the IMF's member countries are the primary source of financial resources for the IMF. Each member country pays in a subscription, equal to its quota, on joining the IMF (see page 26). The IMF also has two lines of credit with a subset of its members to supplement its quota resources in case of unusually high demand for IMF financial assistance. These credit lines, known as the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB), currently are not in use. They were last activated in 1998 following the Asian financial crisis and before the most recent quota increase took effect.

The IMF is authorized to borrow from private capital markets and has considered the option on several occasions. It has, however, concluded each time not to do so because of organizational and operational drawbacks.

The resources for the PRGF and the HIPC Initiative are financed through contributions from a broad spectrum of member countries and the IMF itself. They are separate from the quota subscriptions and are administered under the PRGF and PRGF-HIPC Trusts, for which the IMF acts as trustee. The PRGF Trust borrows at market or below-market interest rates from loan providers—central banks, governments, and government institutions—and lends them to PRGF-eligible member countries at an annual interest rate of 0.5 percent. The PRGF Trust receives grant contributions to subsidize the rate of interest on PRGF loans and maintains a Reserve Account as security for loans to the Trust.

How much can the IMF lend?

The IMF has limited resources. Only a portion of its quota subscriptions is usable, because the IMF cannot use the currencies of members that it is assisting or that its Executive Board does not consider to be

IMF facilities have different terms and conditions

		Repayment Terms		
Facility or policy	Charges	Obligation schedule (years)	Expectation schedule[1] (years)	Installments
Regular facilities				
Stand-By Arrangement	Basic rate plus surcharge[2]	$3\frac{1}{4}$–5	$2\frac{1}{4}$–4	Quarterly
Extended Fund Facility	Basic rate plus surcharge[2]	$4\frac{1}{2}$–10	$4\frac{1}{2}$–7	Semiannual
Compensatory Financing Facility	Basic rate	$3\frac{1}{4}$–5	$2\frac{1}{4}$–4	Quarterly
Emergency Assistance	Basic rate	$3\frac{1}{4}$–5	. . .[3]	Quarterly
Supplemental Reserve Facility	Basic rate plus 300–500 basis points	2–$2\frac{1}{2}$	1–$1\frac{1}{2}$	Semiannual
Contingent Credit Lines	Basic rate plus 150–350 basis points	2–$2\frac{1}{2}$	1–$1\frac{1}{2}$	Semiannual
Concessional facility				
Poverty Reduction and Growth Facility	0.5 percent a year	$5\frac{1}{2}$–10	. . .[3]	Semiannual
Memorandum items (applicable to regular facilities):				
Service charge	0.5 percent			
Commitment charge	25 basis points on committed amounts of up to 100 percent of quota, 10 basis points thereafter			

[1] Disbursements made after November 28, 2000—with the exception of disbursements of Emergency Assistance and loans from the Poverty Reduction and Growth Facility—are intended to be repaid on the expectation schedule, as are all repayments under the Supplemental Reserve Facility and the Contingent Credit Line

[2] Surcharges are applied to the combined credit outstanding under the Stand-By Arrangements and the Extended Fund Facility of 100 (200) basis points on the amounts in excess of 200 (300) percent of quota.

[3] Not applicable

Data: IMF, Treasurer's Department.

financially strong. The IMF's liquidity position is further reduced by the existing demand for assistance—undrawn commitments under current IMF arrangements—and the need to always hold an additional amount of resources for working balances.

Overdue payments

To maintain the cooperative nature and protect the financial resources of the IMF, and to keep other financial sources open to them, members must meet their financial obligations to the IMF on time. However, if a member does fall behind in its debt-service obligations, it is expected to take steps that will enable it to settle its arrears as quickly as possible.

The IMF's strategy to help prevent new cases of arrears has three main elements:

Prevention. To prevent new cases of arrears from emerging, the IMF attaches conditions on the use of its resources, assesses members' ability to repay, cooperates with donors and other official creditors, undertakes safeguard assessments of the central banks receiving IMF resources, and provides technical assistance to members.

Intensified collaboration and the rights approach. Intensified collaboration helps members design and implement economic policies to resolve their balance of payments and arrears problems. It also provides 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.

In some cases, a country's economic policies are formulated in the context of a "rights-accumulation program." This program allows a country in protracted arrears—owing amounts to the IMF that are overdue by more than six months—to accumulate "rights" to future drawings of IMF resources through its adjustment and reform efforts. Future drawings are made only after the member has completed the program and cleared its arrears and the IMF has approved a successor arrangement. Only 11 IMF members were eligible for the rights approach and, of those countries, only Liberia, Somalia, and Sudan remain in arrears.

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.

Protracted arrears to the IMF increased in financial year 2002 to SDR 2.36 billion as of April 30, 2002, from SDR 2.24 billion a year earlier. This increase reflected the continued accumulation of new arrears by Zimbabwe—the first case of arrears accumulation under the PRGF—and further increases in arrears by most of the other protracted arrears countries. In addition to Zimbabwe, three other countries in protracted arrears—Liberia, Somalia, and Sudan—account for almost all of the overdue financial obligations to the IMF.

IMF financing in 2001/2002

Unfavorable global economic and financial conditions contributed to a sharp rise in new IMF commitments in financial year 2002, to SDR 41.3 billion up from SDR 14.5 billion in financial year 2001.

Under the IMF's ***regular (nonconcessional) financing facilities***, the IMF approved nine new Stand-By Arrangements involving commitments totaling SDR 26.7 billion, most of which was earmarked for Brazil and Turkey, and augmented commitments by SDR 12.7 billion to Argentina and Turkey under Stand-By Arrangements already in place. Total drawings under the IMF's regular financing facilities amounted to SDR 29.1 billion, while repayments totaled SDR 19.2 billion, in financial year 2002. Consequently, IMF credit outstanding rose by SDR 9.9 billion, to SDR 52.1 billion by end-April 2002.

In financial year 2002, the mobilization of loan and grant resources for the continuation of the ***Poverty Reduction and Growth Facility (PRGF)*** during 2002–05 and the ***Heavily Indebted Poor Countries (HIPC) Initiative*** was completed, with 10 lenders providing SDR 4.4 billion in new loan resources to finance future PRGF operations. The IMF Executive Board approved 9 new PRGF arrangements during the year, with commitments totaling SDR 1.8 billion. In addition, augmentations of existing commitments totaling SDR 66 million were approved. Total PRGF disbursements amounted to about SDR 1.0 billion in financial year 2002, compared with SDR 0.6 billion in the previous financial year. As of end-April 2002, the IMF had also committed HIPC Initiative assistance (grants) of SDR 1.6 billion to 26 eligible member countries that had reached their decision points under the enhanced framework. Of these commitments, SDR 0.7 billion has been disbursed.

On May 4, 2001, an administered account was established to accept contributions from bilateral donors that would enable the IMF to provide ***Postconflict Emergency Assistance*** at a concessional rate of charge of 0.5 percent a year for PRGF-eligible members. As of April 30, 2002, total pledged contributions of SDR 7 million had been made, of which SDR 1.4 million by the United Kingdom and Sweden had been paid. During the financial year, disbursements totaled SDR 0.8 million to subsidize the rate of charge on postconflict assistance for six countries (Albania, the Republic of Congo, Guinea-Bissau, Rwanda, Sierra Leone, and Tajikistan).

Since April 2002, the Democratic Republic of the Congo has cleared all of its arrears to the IMF (SDR 0.4 billion), reducing total overdue obligations to the IMF to below SDR 2 billion, the lowest level since March 1988. Bridge loans provided by Belgium, France, South Africa, and Sweden facilitated the arrears clearance. Following the clearance of arrears, the Executive Board decided to lift all remedial measures that had been imposed on the Democratic Republic of the Congo and restored the country's eligibility to use IMF resources and its voting and related rights in the IMF. This decision also paved the way for the approval of a three-year SDR 580 million PRGF arrangement.

The IMF conducts Safeguard Assessments to provide assurance that the central banks of members receiving financial assistance have appropriate controls to manage their resources.

What does the IMF charge to borrow?

The IMF, like other financial institutions, earns income from interest charges and fees levied on members using its resources. In addition, the IMF also earns interest on its holdings of SDRs, an interest-bearing reserve asset.

The basic rate of charge on the use of IMF resources is determined at the beginning of the financial year to achieve an agreed net income target for the year. This rate, a proportion of the SDR interest rate, is set so as to cover the cost of funds and administrative expenses as well as add to the IMF's reserves. At year-end, any income in excess of the target is usually refunded to members that paid interest charges during the year, and any income shortfalls are made up the following year.

In addition to basic charges, the IMF also receives income from debtor members in the form of service charges, commitment fees, and special charges on overdue principal payments.

The IMF levies surcharges to discourage excessively large use of credit in the credit tranches and under the Extended Fund Facility, based on the total amount of credit outstanding relative to each member's quota. The IMF also imposes surcharges on financing under the Supplemental Reserve Facility and the Contingent Credit Lines, two facilities under which the amounts of financing provided to a member are large. 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 increases the rate of charge to borrowers and reduces the rate it pays creditors to distribute the cost of overdue financial obligations evenly between creditor and debtor members. When member countries settle their overdue charges, the IMF refunds the additional amounts collected. The same mechanism is used to finance additions to the IMF's special contingent account, which has been established to protect the IMF against potential losses from members' ultimate failure to settle their financial obligations.

Safeguarding IMF resources

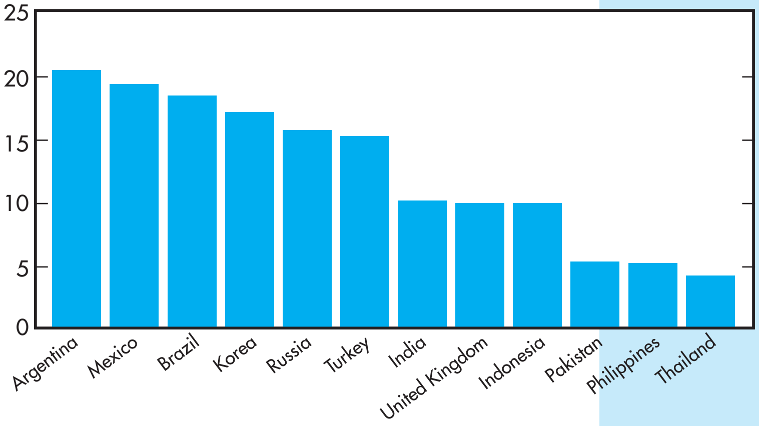
The IMF conducts Safeguard Assessments to provide assurance that the central banks of members receiving financial assistance have appropriate controls to manage their resources, including IMF disbursements. Safeguard Assessments are conducted at central banks because they are typically the direct recipients of IMF resources.

The safeguards policy was initiated in March 2000 on an experimental basis against the background of two countries under IMF-supported programs providing inaccurate information on international reserves and allegations of misuse of IMF resources. During the Safeguard Assessments, IMF staff examine internal control, accounting, reporting, and auditing systems at the central banks of borrowing members and propose remedies to address any vulnerabilities they identify. In some cases, the proposed measures need to be implemented before further disbursements of IMF resources are made to the member in question.

As a result of the safeguards policy, central banks have become more aware of the need for transparency and proper governance. The policy has also enhanced the IMF's reputation as a prudent lender. ■

Top 12 IMF borrowers, 1947–2001

(cumulative drawings during period; billion SDRs)



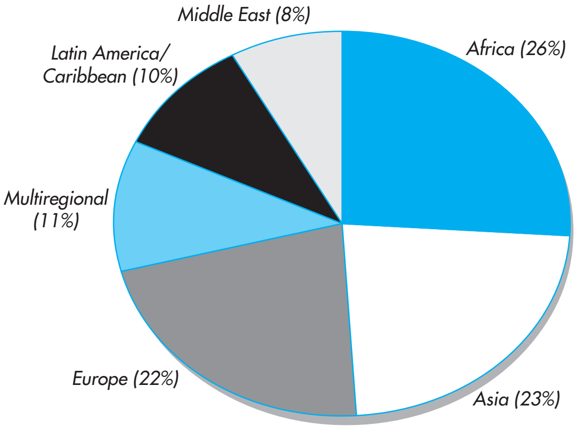
Data: IMF Treasurer's Department

Wide-ranging needs translate into increased demand for IMF technical assistance

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

The IMF's technical assistance activities grew rapidly and, by the mid-1980s, the number of staff years 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. In addition to supporting the work of crisis prevention and management, and restoration of macroeconomic stability in postcrisis situations, the IMF provides assistance to countries that are following up on recommendations from Financial Sector Assessments, adopting international standards and codes, improving their tracking of public expenditures, and combating money laundering and the financing of terrorism.

IMF technical assistance in financial year 2002, by region
(percent of total resources)



Data: IMF, *Annual Report* 2002

The IMF's technical assistance has grown from just under 70 person-years in 1970 to approximately 340 person-years annually and represents about 25 percent of the IMF's total administrative budget.

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; and
- institution and capacity building in central banks, treasuries, tax and customs departments, and statistical services.

Technical assistance is provided through missions, short- and long-term assignment of experts, and regional technical assistance centers. Two regional technical assistance centers have been established, one serving the small island economies of the Pacific, and the other serving the CARICOM countries and the Dominican Republic. Two more centers are planned to open later this year in Africa (see page 2). 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 and 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 developments and monetary analysis and research.

The *Fiscal Affairs Department* is responsible for providing policy advice and capacity building for revenue collection 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* assists members in meeting internationally accepted standards of statistical reporting. The agreement on the Special Data

Dissemination Standard has increased the demand for the department's assistance, which covers monetary, balance of payments, national accounts, and government finance statistics.

The *IMF Institute* provides training to officials at IMF headquarters, at 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.

A country's commitment to reforms, a stable macroeconomic environment, and an adequate administrative structure are crucial for the successful implementation of technical assistance.

The *Legal Department* helps members prepare legislation and advises 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 and training on 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 *Technology and General Services Department* helps member countries automate and modernize computer operations in their central banks, finance ministries, and statistical offices.

External cooperation

In recent years, technical assistance projects have grown both larger and more complex, requiring multiple sources of financing. Large projects may 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 World Bank; the Asian Development Bank; the European Union; and the governments of Australia, Canada, Denmark, France, Ireland, Italy, Japan, the Netherlands, New Zealand, Switzerland, the United Kingdom, and the United States. The government of Japan also makes generous annual contributions to IMF scholarship programs. Such cooperative arrangements with multilateral and bilateral donors not only support activities financially but also help prevent 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 technical assistance, the IMF sets clear priorities so that its resources can be allocated among member countries and regions in the most effective and efficient manner. 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, which is chaired by a Deputy Managing Director—takes part in this process. The Office of Technical Assistance Management has been established to help management develop policies guiding the delivery of technical assistance and the coordination of technical assistance within the IMF, as well as the collaboration with donor partners and technical assistance providers.

A number of conditions have been identified as being crucial for the successful implementation of technical assistance—in particular, 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. ■

IMF staff team visits tax collection center in Kabul, Afghanistan.

Quotas

Basic building blocks of the IMF

The IMF is a financial cooperative, in some ways like a credit union. On joining, each member country pays in a subscription equal to its quota (see the box below).

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.

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.

East Timor became the184th IMF member on July 23, 2002. Above, East Timorese Prime Minister Mari Alkatiri (left) is welcomed to the IMF by Managing Director Horst Köhler.

What are quotas?

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

Subscription: A member's IMF subscription is equivalent to its quota. 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 reserve currencies, namely 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 based in part on its quota.

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

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 increase of their quotas to the Board of Governors. Four of the general reviews concluded that no increase was needed.

A member may also request an adjustment of its own quota at any time. The most recent such request, by China following its resumption of sovereignty over Hong Kong in 1997, resulted in an increase of China's quota in 2001 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, approved an increase of total IMF members' quotas by 45 percent, from SDR 146 billion (about $200 billion at the time) to the current SDR 213 billion (about $282 billion). 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 characteristics of IMF financing arrangements.

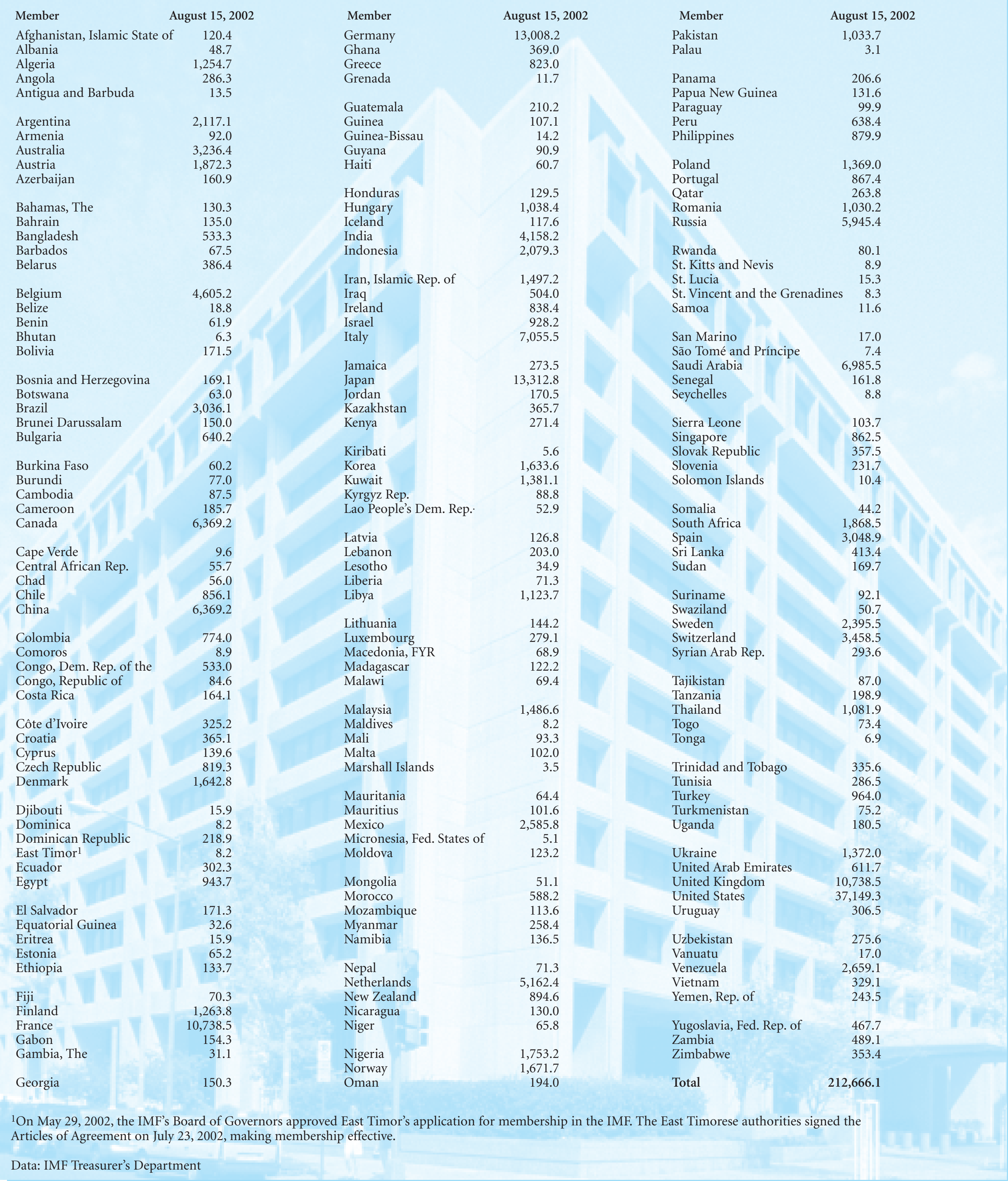
Developments

The Twelfth General Review of Quotas formally began in December 2001 and is currently under way. As part of this process, the IMF Executive Board held a seminar in February 2002 on conceptual issues involved in assessing the adequacy of the IMF's resource base. The seminar provided an opportunity for a preliminary exchange of views on the implications of developments in the world economy and the evolving role of the IMF for the institution's resource base. A follow-up staff paper will take into account these views and quantify the possible size of the IMF's resources under various scenarios.

The IMF Executive Board has also been conducting a comprehensive review of the formulas used by the IMF to help determine quotas of individual members, with a view to simplifying them and updating them to reflect developments in the world economy, including the growing role of financial markets. The Board discussed IMF staff papers on the quota formulas in October 2001 and June 2002. Earlier, at the Board's request, an independent panel of experts from outside the IMF also examined the quota formulas and made recommendations. The Board is now awaiting the outcome of additional analysis by the IMF staff.

After achieving independence in May 2002, East Timor became the IMF's 184th member country on July 23, 2002, with a quota of SDR 8.2 million. ■

IMF quotas
(million SDRs)



Member	August 15, 2002	Member	August 15, 2002	Member	August 15, 2002
Afghanistan, Islamic State of	120.4	Germany	13,008.2	Pakistan	1,033.7
Albania	48.7	Ghana	369.0	Palau	3.1
Algeria	1,254.7	Greece	823.0		
Angola	286.3	Grenada	11.7	Panama	206.6
Antigua and Barbuda	13.5			Papua New Guinea	131.6
		Guatemala	210.2	Paraguay	99.9
Argentina	2,117.1	Guinea	107.1	Peru	638.4
Armenia	92.0	Guinea-Bissau	14.2	Philippines	879.9
Australia	3,236.4	Guyana	90.9		
Austria	1,872.3	Haiti	60.7	Poland	1,369.0
Azerbaijan	160.9			Portugal	867.4
		Honduras	129.5	Qatar	263.8
Bahamas, The	130.3	Hungary	1,038.4	Romania	1,030.2
Bahrain	135.0	Iceland	117.6	Russia	5,945.4
Bangladesh	533.3	India	4,158.2		
Barbados	67.5	Indonesia	2,079.3	Rwanda	80.1
Belarus	386.4			St. Kitts and Nevis	8.9
		Iran, Islamic Rep. of	1,497.2	St. Lucia	15.3
Belgium	4,605.2	Iraq	504.0	St. Vincent and the Grenadines	8.3
Belize	18.8	Ireland	838.4	Samoa	11.6
Benin	61.9	Israel	928.2		
Bhutan	6.3	Italy	7,055.5	San Marino	17.0
Bolivia	171.5			São Tomé and Príncipe	7.4
		Jamaica	273.5	Saudi Arabia	6,985.5
Bosnia and Herzegovina	169.1	Japan	13,312.8	Senegal	161.8
Botswana	63.0	Jordan	170.5	Seychelles	8.8
Brazil	3,036.1	Kazakhstan	365.7		
Brunei Darussalam	150.0	Kenya	271.4	Sierra Leone	103.7
Bulgaria	640.2			Singapore	862.5
		Kiribati	5.6	Slovak Republic	357.5
Burkina Faso	60.2	Korea	1,633.6	Slovenia	231.7
Burundi	77.0	Kuwait	1,381.1	Solomon Islands	10.4
Cambodia	87.5	Kyrgyz Rep.	88.8		
Cameroon	185.7	Lao People's Dem. Rep.·	52.9	Somalia	44.2
Canada	6,369.2			South Africa	1,868.5
		Latvia	126.8	Spain	3,048.9
Cape Verde	9.6	Lebanon	203.0	Sri Lanka	413.4
Central African Rep.	55.7	Lesotho	34.9	Sudan	169.7
Chad	56.0	Liberia	71.3		
Chile	856.1	Libya	1,123.7	Suriname	92.1
China	6,369.2			Swaziland	50.7
		Lithuania	144.2	Sweden	2,395.5
Colombia	774.0	Luxembourg	279.1	Switzerland	3,458.5
Comoros	8.9	Macedonia, FYR	68.9	Syrian Arab Rep.	293.6
Congo, Dem. Rep. of the	533.0	Madagascar	122.2		
Congo, Republic of	84.6	Malawi	69.4	Tajikistan	87.0
Costa Rica	164.1			Tanzania	198.9
		Malaysia	1,486.6	Thailand	1,081.9
Côte d'Ivoire	325.2	Maldives	8.2	Togo	73.4
Croatia	365.1	Mali	93.3	Tonga	6.9
Cyprus	139.6	Malta	102.0		
Czech Republic	819.3	Marshall Islands	3.5	Trinidad and Tobago	335.6
Denmark	1,642.8			Tunisia	286.5
		Mauritania	64.4	Turkey	964.0
Djibouti	15.9	Mauritius	101.6	Turkmenistan	75.2
Dominica	8.2	Mexico	2,585.8	Uganda	180.5
Dominican Republic	218.9	Micronesia, Fed. States of	5.1		
East Timor[1]	8.2	Moldova	123.2	Ukraine	1,372.0
Ecuador	302.3			United Arab Emirates	611.7
Egypt	943.7	Mongolia	51.1	United Kingdom	10,738.5
		Morocco	588.2	United States	37,149.3
El Salvador	171.3	Mozambique	113.6	Uruguay	306.5
Equatorial Guinea	32.6	Myanmar	258.4		
Eritrea	15.9	Namibia	136.5	Uzbekistan	275.6
Estonia	65.2			Vanuatu	17.0
Ethiopia	133.7	Nepal	71.3	Venezuela	2,659.1
		Netherlands	5,162.4	Vietnam	329.1
Fiji	70.3	New Zealand	894.6	Yemen, Rep. of	243.5
Finland	1,263.8	Nicaragua	130.0		
France	10,738.5	Niger	65.8	Yugoslavia, Fed. Rep. of	467.7
Gabon	154.3			Zambia	489.1
Gambia, The	31.1	Nigeria	1,753.2	Zimbabwe	353.4
		Norway	1,671.7		
Georgia	150.3	Oman	194.0	**Total**	**212,666.1**

[1] On May 29, 2002, the IMF's Board of Governors approved East Timor's application for membership in the IMF. The East Timorese authorities signed the Articles of Agreement on July 23, 2002, making membership effective.

Data: IMF Treasurer's Department

What is the SDR?

In 1969, the IMF created the SDR as an international reserve asset to supplement members' existing reserve assets. It is the unit of account of the IMF and some other international and regional organizations.

The SDR is a purely official asset, held by member countries, the IMF, and certain other international institutions. It 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 payments and loan disbursements to members.

SDR valuation on August 19, 2002

Currency	Currency amount	Exchange rate[1]	U.S. dollar equivalent
Euro	0.4260	0.98060	0.417736
Japanese yen	21.0000	118.67000	0.176961
Pounds sterling	0.0984	1.53800	0.151339
U.S. dollar	0.5770	1.00000	0.577000
		Total	1.323036

SDR 1 = US$1.32304
US$1 = SDR 0.755837

[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 are SDRs allocated?

The IMF allocates SDRs to its members in proportion to their IMF quotas. The last allocation took place in January 1981 to the IMF's then 141 member countries, bringing total allocations to SDR 21.4 billion.

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 holds SDRs in excess of its allocation receives interest.

More than one-fifth of the IMF's current members have never received an SDR allocation because they joined the IMF after the last allocation. In addition, some members have not participated in every allocation.

To bring the cumulative SDR allocations of all member countries to a uniform 29 percent of quota, the Board of Governors adopted a resolution in September 1997 in favor of an amendment to the IMF's Articles of Agreement providing for a special onetime allocation of SDR 21.4 billion. The Fourth Amendment, when approved, will double the current level of cumulative SDR allocations. The proposed amendment needs to be approved by three-fifths (110) of the members having 85 percent of the total voting power. As of mid-August 2002, 121 members having 73 percent of the total voting power had agreed. Thus, approval by the United States would put the amendment into effect.

How is the SDR's value 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 change in the valuation basket was in 2001 and took account of the introduction of the euro. 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 at noon in the London market and is posted each day on the IMF's website (www.imf.org/external/np/tre/sdr/basket.htm).

How is the SDR interest rate determined?

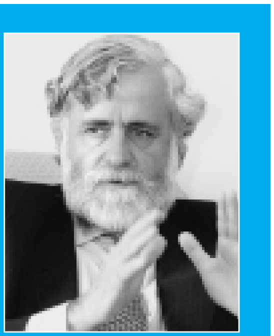
The SDR interest rate is the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF. Adjusted weekly, the SDR interest rate is a weighted average of interest rates on selected short-term domestic instruments in the markets of the currencies included in the SDR valuation basket and is posted each week on the IMF website (www.imf.org/external/np/tre/tad/sdr_ir.cfm). The SDR interest rate for the week beginning August 26, 2002, was 2.23 percent. ■

Photo credits: Denio Zara, Padraic Hughes, Pedro Márquez, and Michael Spilotro for the IMF, pages 1, 15, 18, 26, and 29; Antony Njuguna for Reuters, page 2; Staff photographer for Reuters, page 3; Georges Gobet for AFP, page 3; STR for Reuters, page 8; Luke Hunt for AFP, page 9; IMF, page 25; Shamil Zhumatov for Reuters, page 30; Gerard Malie for AFP, page 30; Mike Hutchings for Reuters, page 31; Robyn Beck for AFP, page 31; Boris Roessler for AFP, page 31; Mauricio Lima for AFP, page 31.
Illustration credits: Massoud Etemadi for the IMF, pages 11, 13, and 16; Miel, Cartoonist & Writers Syndicate, page 20.

Germany's Horst Köhler became the IMF's eighth Managing Director in May 2000.

A U.S. national, Anne O. Krueger has been First Deputy Managing Director of the IMF since September 2001.

Shigemitsu Sugisaki, from Japan, became a Deputy Managing Director of the IMF in February 1997.



Eduardo Aninat, from Chile, has been a Deputy Managing Director of the IMF since December 1999.

IMF Executive Board
(as of August 15, 2002)

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

VACANT
Meg Lundsager
United States
(371,743–17.11 percent)

KEN YAGI
Haruyuki Toyama
Japan
(133,378–6.14 percent)

KARLHEINZ BISCHOFBERGER
Ruediger von Kleist
Germany
(130,332–6.00 percent)

PIERRE DUQUESNE
Sébastien Boitreaud
France
(107,635–4.95 percent)

THOMAS W. SCHOLAR
Martin A. Brooke
United Kingdom
(107,635–4.95 percent)

WILLY KIEKENS (Belgium)
Johann Prader (Austria)
Austria
Belarus
Belgium
Czech Republic
Hungary
Kazakhstan
Luxembourg
Slovak Republic
Slovenia
Turkey
(111,696–5.14 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
(105,412–4.85 percent)

HERNÁN OYARZÁBAL (Venezuela)
Fernando Varela (Spain)
Costa Rica
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Spain
Venezuela, República Bolivariana de
(92,989–4.28 percent)

PIER CARLO PADOAN (Italy)
Harilaos Vittas (Greece)
Albania
Greece
Italy
Malta
Portugal
San Marino
(90,636–4.17 percent)

IAN E. BENNETT (Canada)
Nioclás A. O'Murchú (Ireland)
Antigua and Barbuda
Bahamas, The
Barbados
Belize
Canada
Dominica
Grenada
Ireland
Jamaica
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
(80,636–3.71 percent)

ÓLAFUR ÍSLEIFSSON (Iceland)
Benny Andersen (Denmark)
Denmark
Estonia
Finland
Iceland
Latvia
Lithuania
Norway
Sweden
(76,276–3.51 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
(72,423–3.33 percent)

SULAIMAN M. AL-TURKI
Ahmed Saleh Alosaimi
Saudi Arabia
(70,105–3.23 percent)

CYRUS RUSTOMJEE (South Africa)
Ismaila Usman (Nigeria)
Angola
Botswana
Burundi
Eritrea
Ethiopia
Gambia, The
Kenya
Lesotho
Liberia
Malawi
Mozambique
Namibia
Nigeria
Sierra Leone
South Africa
Sudan
Swaziland
Tanzania
Uganda
Zambia
Zimbabwe
(69,968–3.22 percent)

DONO ISKANDAR DJOJOSUBROTO (Indonesia)
Kwok Mun Low (Singapore)
Brunei Darussalam
Cambodia
Fiji
Indonesia
Lao PDR
Malaysia
Myanmar
Nepal
Singapore
Thailand
Tonga
Vietnam
(68,367–3.15 percent)

A. SHAKOUR SHAALAN (Egypt)
Mohamad B. Chatah (Lebanon)
Bahrain, Kingdom of
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
Wang Xiaoyi
China
(63,942–2.94 percent)

ALEKSEI V. MOZHIN
Andrei Lushin
Russia
(59,704–2.75 percent)

ROBERTO F. CIPPÀ (Switzerland)
Wieslaw Szczuka (Poland)
Azerbaijan
Kyrgyz Republic
Poland
Switzerland
Tajikistan
Turkmenistan
Uzbekistan
(56,900–2.62 percent)

MURILO PORTUGAL (Brazil)
Alternate (vacant)
Brazil
Colombia
Dominican Republic
Ecuador
Guyana
Haiti
Panama
Suriname
Trinidad and Tobago
(53,422–2.46 percent)

YAGA V. REDDY (India)
R.A. Jayatissa (Sri Lanka)
Bangladesh
Bhutan
India
Sri Lanka
(52,112–2.40 percent)

ABBAS MIRAKHOR (Islamic Republic of Iran)
Mohammed Daïri (Morocco)
Algeria
Ghana
Iran, Islamic Rep. of
Morocco
Pakistan
Tunisia
(51,793–2.38 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 1, 2002, members' votes totaled 2,172,661, and votes in the Executive Board amounted to 2,159,676. This total does not include the votes of the Islamic State of Afghanistan, the Democratic Republic of the Congo, East Timor, Somalia, and the Federal Republic of Yugoslavia, which did not participate in the 2000 Regular Election of Executive Directors.

Twelve years in review

The hallmarks of the IMF, as reflected in the policy implementation showcased in this time line, are twofold: its **universality** and the responsibility it bears to interact cooperatively with each of its members on economic policies; and its **flexibility**, its ability to adapt its activities rapidly to the demands of a continually evolving global economy. It is a perennially "self-reforming" institution, mindful of its obligation to its entire membership.

In recent years, this has meant facing three major challenges: the gathering pace—and expanding opportunities and risks—of globalization; the transition from planned to market economies in many countries; and an intensified response to the plight of the world's poorest countries.

In the future, the world is expected to confront a deepening integration of markets, but it will need to address additional challenges, such as the aging of populations, and the potential for a surge in extremism and violence if the trend toward greater inequalities between the poorest and most affluent countries is not reversed. ■

Bebi Heybat mosque and bay in Baku, Azerbaijan.

Many of the world's poor live in Africa.

	What happened at the IMF...	...and in the world
1990	• Facilities temporarily expanded to support countries affected by Middle East crisis • Interim Committee agrees to a 50 percent quota increase	• Middle East crisis • Two Germanys (and currencies) unify • Establishment of European Bank for Reconstruction and Development
1991	• Completion of joint study (IMF, World Bank, Organization for Economic Cooperation and Development, and European Bank for Reconstruction and Development) on the Soviet economy, with recommendations for reform • Former USSR countries receive technical assistance	• Dissolution of Soviet Union and Yugoslavia • Maastricht Treaty creates European Union • Establishment of MERCOSUR (common market for Argentina, Brazil, Paraguay, and Uruguay)
1992	• Quota increase takes effect • Executive Board approves membership of former USSR countries • Third Amendment to the Articles of Agreement permits members with arrears to establish record on policies and payments performance and accumulate rights for future drawings • Executive Board increased from 22 to 24 seats	• Japan enters deep economic slump • North American Free Trade Agreement signed • European Exchange Rate Mechanism (ERM) crisis
1993	• Systemic Transformation Facility (STF) created to assist countries in transition from a planned to a market economy	• Radical reform of the ERM
1994	• Madrid Declaration calls on industrial countries to sustain growth, reduce unemployment, and prevent a resurgence of inflation; developing countries to extend growth; and transition countries to pursue bold stabilization and reform efforts • New era of transparency initiated • Arrangements approved for 13 countries of the CFA franc zone	• Debt crisis in Mexico • World Trade Organization replaces General Agreement on Tariffs and Trade • Devaluation of CFA franc
1995	• Stand-By Arrangement of SDR 12.1 billion (about $17.8 billion) approved for Mexico	• Latin American financial markets feel contagion effects of Mexican crisis • Uruguay Round trade agreement concluded

West Berliners stand in front of Berlin Wall as a section is being demolished, November 1989.

- Extended Fund Facility (EFF) Arrangement of SDR 6.9 billion (about $10.1 billion) approved for Russia
- IMF establishes data standards for member countries

- Approval of Heavily Indebted Poor Countries (HIPC) Initiative and permanent financing for the Enhanced Structural Adjustment Facility (ESAF)
- Website established as part of transparency effort [www.imf.org]

- Public information notices (PINs) issued following IMF consultation with countries are published if country agrees
- Board of Governors approves Fourth Amendment, calling for special allocation of SDRs
- Creation of Supplemental Reserve Facility (SRF)
- Establishment of New Arrangements to Borrow (NAB)
- Activation of SRF and NAB and Approval of Stand-By Arrangement of SDR 5.5 billion for Korea

- General Arrangements to Borrow (GAB) activated for Russia
- NAB activated for Brazil
- To address far-reaching problems facing world economy, Board of Governors endorses concept of new “financial architecture”

- Newly established European Central Bank granted observer status in IMF
- Quotas increased by 45 percent
- Contingent Credit Lines Facility established to protect countries with sound policies from crises in other countries
- Revaluation of gold holdings to help finance ESAF-HIPC Trust
- ESAF replaced by Poverty Reduction and Growth Facility
- HIPC Initiative is enhanced to provide faster and broader debt relief
- Interim Committee transformed into the International Monetary and Financial Committee

- Major push for HIPC-eligible countries to reach decision points
- Steps taken to monitor more closely the use of its resources by borrowing countries
- Independent Evaluation Office established to assess operations and policies
- Financing facilities streamlined

- International Capital Markets Department established to enhance surveillance, crisis prevention, and crisis management
- Conditionality streamlined; country ownership of reforms stressed
- China’s quota increased to SDR 6.4 billion (about $8.3 billion)
- First Deputy Managing Director proposes mechanism to help sovereign debtors and their creditors resolve debt problems

- Focus on Millennium Development Goals intensified
- $30 billion Stand-By Arrangement with Brazil approved

Stock market operators negotiate trades in São Paulo, Brazil, during currency crisis.

For the complete IMF chronology, see http://www.imf.org

1996 1997 1998 1999 2000 2001 2002

- Problems of some heavily indebted poor countries worsen

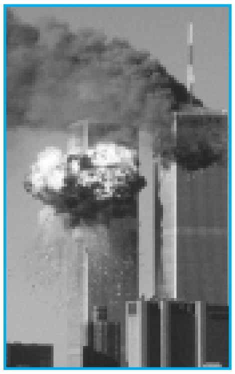
- China resumes sovereignty over Hong Kong
- Thai baht collapses; contagion affects Korea and Southeast Asia

- Asian crisis spreads, reaching as far as Brazil and Russia
- Collapse of Long Term Capital Management hedge fund
- World’s first regional stock exchange launched in Abidjan, linking 8 West African countries

Hong Kong SAR prepares for millennium celebration.

- Launch of euro—single European currency—in 11 countries

- Meltzer Commission Report on role and effectiveness of IMF and multilateral development banks
- Jubilee 2000 calls for total debt cancellation
- African leaders hold economic summit to discuss poverty and growth



World Trade Center shortly after terrorist attacks.

- U.S. recession begins
- Terrorists attack United States on 9/11
- China and Taiwan Province of China join WTO at Doha meeting
- Banking crisis in Turkey

- Argentina debt default is largest in history
- Euro replaces physical currencies of 12 euro-area countries
- UN Conference on Financing for Development held in Monterrey, Mexico.
- New Partnership for Africa’s Development

Euro symbol sculpture marks launch of new currency in Germany.

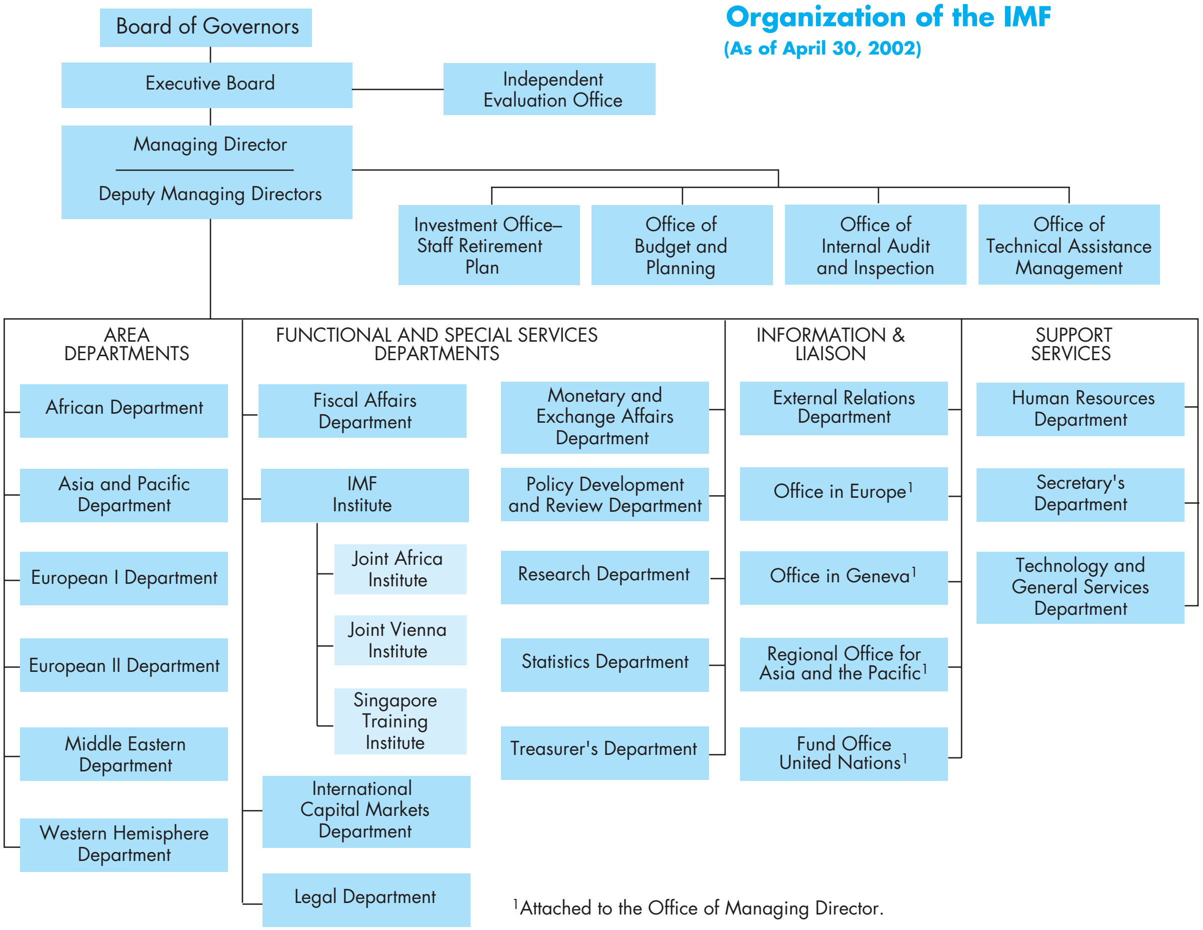
IMF SURVEY SUPPLEMENT

Laura Wallace
Editor-in-Chief
Sheila Meehan
Senior Editor
Elisa Diehl
Assistant Editor
Natalie Hairfield
Assistant Editor
Jacqueline Irving
Assistant Editor
Lijun Li
Editorial Assistant
Kelley McCollum
Editorial Assistant
Philip Torsani
Art Editor
Julio R. Prego
Graphic Artist

Prakash Loungani
Contributing Editor

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 23 times a year, plus an annual *Supplement on the IMF* and an annual index. Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on National Geographic's *Atlas of the World*, Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Text from the *IMF Survey* may be reprinted, with due credit given, but photographs and illustrations cannot be reproduced in any form. Address editorial correspondence to Current Publications Division, Room IS7-1100, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org. The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged $79.00 annually. Apply for subscriptions to Publication Services, Box X2002, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-7430; fax: (202) 623-7201; e-mail: publications@imf.org.

Organization of the IMF
(As of April 30, 2002)


Board of Governors
Executive Board
Independent Evaluation Office
Managing Director
Deputy Managing Directors
Investment Office–Staff Retirement Plan
Office of Budget and Planning
Office of Internal Audit and Inspection
Office of Technical Assistance Management

AREA DEPARTMENTS
African Department
Asia and Pacific Department
European I Department
European II Department
Middle Eastern Department
Western Hemisphere Department

FUNCTIONAL AND SPECIAL SERVICES DEPARTMENTS
Fiscal Affairs Department
IMF Institute
Joint Africa Institute
Joint Vienna Institute
Singapore Training Institute
International Capital Markets Department
Legal Department
Monetary and Exchange Affairs Department
Policy Development and Review Department
Research Department
Statistics Department
Treasurer's Department

INFORMATION & LIAISON
External Relations Department
Office in Europe[1]
Office in Geneva[1]
Regional Office for Asia and the Pacific[1]
Fund Office United Nations[1]

SUPPORT SERVICES
Human Resources Department
Secretary's Department
Technology and General Services Department

[1] Attached to the Office of Managing Director.

IMF at a glance

When was the IMF set up?	It was founded in 1945 and began financial operations on March 1, 1947
What is its current membership?	184 countries
What are its governing bodies?	Board of Governors and Executive Board
Who heads the IMF?	Horst Köhler is Managing Director
How many staff work at the IMF?	About 2,650 from 140 countries
What are its total resources?	SDR 212.7 billion (nearly $283 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.