CHAPTER 4

PROGRAM SUPPORT AND CAPACITY BUILDING

The IMF provides support to its member countries through a variety of instruments, depending on their needs. It has a number of different lending facilities (Table 4.1) as well as mechanisms for providing policy support without financing, and also provides, at the request of members, technical assistance and training that are consistent with the purposes of the Fund. The IMF's Executive Board regularly reviews these instruments to ensure that they continue to meet the evolving needs of member countries.

Consideration and approval of members' requests for financial assistance and program support are core Board responsibilities, alongside surveillance. Under its lending facilities, the IMF makes temporary financing available to give member countries time to adjust their policies so as to overcome short-term balance of payments problems, such as insufficient foreign exchange to purchase needed imports or make payments on external obligations; stabilize their economies; and avoid similar problems in the future. IMF financing is provided in support of economic reform programs developed by member countries themselves in collaboration with the IMF, and is expected to have a catalytic effect, enabling a country to restore confidence in its policies and attract additional financing from other sources. The Board regularly evaluates members' performance under their programs, and, in most cases, funds are disbursed as program targets are met.

TA and training help member countries fulfill the commitments they make when they join the IMF—to pursue policies that foster financial and macroeconomic stability, sustainable economic growth, and orderly exchange rate arrangements, and to provide the IMF with timely, accurate, and high-quality data about their economies. TA and training are also vehicles for helping member countries implement the recommendations that come out of the IMF's Article IV consultations (see Chapter 3). Hence, aligning and integrating capacity building with surveillance and program work have become key objectives of the IMF's Executive Board. The IMF offers TA and training mainly in its core areas of expertise, including macroeconomic policy, tax and revenue administration, public expenditure management, monetary policy, exchange systems, financial sector reforms, debt management, and macroeconomic and financial statistics. In recent years, member countries have increasingly requested assistance in addressing issues related to globalization and investment, such as preventing money laundering and the financing of terrorism; strengthening public investment, public-private partnerships, and management of fiscal risks; adopting international standards and codes for data and financial and fiscal management; correcting weaknesses identified under the joint IMF–World Bank Financial Sector Assessment Program; and carrying out debt sustainability analyses.

FINANCIAL ASSISTANCE AND POLICY ADVICE

Financing under the IMF's main credit facilities is subject to charges (interest) and in some cases may be subject to surcharges, depending on the type and duration of financing and the amount of IMF credit outstanding. The bulk of such financing is provided through Stand-By Arrangements, which address short-term balance of payments difficulties, and Extended Arrangements, which focus on external payments difficulties caused by longer-term structural problems. In FY2008, the Fund's Executive Board approved SDR 934.2 million in the use of Fund resources under these facilities (Table 4.2), which included three precautionary Stand-By Arrangements—for Gabon (36 months, SDR 77.2 million), Honduras (12 months, SDR 38.9 million), and Iraq (15 months, SDR 475.4 million)—and a 36-month Extended Arrangement for Liberia (SDR 342.8 million), extended as a blend with concessional financing under the Poverty Reduction and Growth Facility, the principal instrument for providing IMF financial support to low-income countries (see below). In addition, the Board approved a decrease in the amount of SDR 35 million of an existing Stand-By Arrangement for Paraguay.

The IMF provides subsidized loans through the PRGF, which focuses on poverty reduction in the context of a growth-oriented economic strategy, and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). A low-income country seeking a PRGF arrangement or debt relief must prepare a Poverty Reduction Strategy Paper (PRSP) in a participatory process involving domestic stakeholders, including civil society, based on the strategy developed and owned by the country; the PRSP is issued to the Boards of the IMF and the World Bank. During FY2008, the Executive Board approved four new PRGF arrangements (for Guinea, Liberia, Nicaragua, and Togo), with commitments totaling SDR 424.8 million (Table 4.3). In addition, it approved the augmentation, in the amount of SDR 9.0 million, of an existing PRGF arrangement for Burkina Faso. As of April 30, 2008, the reform programs of 25 member countries were supported by PRGF arrangements, with commitments totaling SDR 1.1 billion and undrawn balances of SDR 0.5 billion. Total concessional loans outstanding amounted to SDR 3.9 billion at April 30, 2008 (Figure 4.1).

The IMF provides emergency financial assistance to member countries recovering from conflicts (Emergency Post-Conflict Assistance, or EPCA) and natural disasters

TABLE 4.1

IMF lending facilities

CREDIT FACILITY (YEAR ESTABLISHED)	PURPOSE	CONDITIONS	PHASING AND MONITORING
CREDIT TRANCHES AND EXTENDED FUND FACILITY[4]			
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character.	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period.	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions.
Extended Fund Facility (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.	Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months.	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions.
SPECIAL FACILITIES			
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence.	Available only in context of Stand-By or Extended Arrangements with associated program and with strengthened policies to address loss of market confidence.	Facility available for one year; front-loaded access with two or more purchases (disbursements).
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses.	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory.	Typically disbursed over a minimum of six months in accordance with the phasing provisions of the arrangement.
Emergency Assistance	Assistance for balance of payments difficulties related to the following:		None, although post-conflict assistance can be segmented into two or more purchases.
(1) Natural disasters (1962)	Natural disasters	Reasonable efforts to overcome balance of payments difficulties.	
(2) Post-conflict (1995)	The aftermath of civil unrest, political turmoil, or international armed conflict	Focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF.	
FACILITIES FOR LOW-INCOME MEMBERS			
Poverty Reduction and Growth Facility (1999)	Longer-term assistance for protracted balance of payments problems of structural nature; aims at poverty-reducing growth.	Adopt 3-year PRGF arrangements. PRGF-supported programs are based on a Poverty Reduction Strategy prepared by the country in a participatory process and integrating macroeconomic, structural, and poverty reduction policies.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews.
Exogenous Shocks Facility (2006)	Short-term assistance to address a temporary balance of payments need that is due to a sudden shock.	Adopt a 1–2 year program involving macro-economic adjustments allowing the member to adjust to the shock and structural reform considered important for adjustment to the shock, or for mitigating the impact of future shocks.	Semiannual or quarterly disbursements on observance of performance criteria and, in most cases, completion of a review.

1 Except for PRGF and ESF, the IMF's lending is financed from the capital subscribed by member countries; each country is assigned a quota that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or SDRs (see Box 5.2)—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower purchasing foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower repurchasing its currency from the IMF with foreign currency. PRGF and ESF lending is financed by the PRGF-ESF Trust. (To date, no financing has been provided under ESF.)

2 The *rate of charge* on funds disbursed from the General Resources Account (GRA) is set at a margin over the weekly interest rate on SDRs. The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (25 basis points on committed amounts up to 100 percent of quota, 10 basis points thereafter) applies to the amount that may be drawn during each (annual) period under a Stand-By or Extended Arrangement; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement.

ACCESS LIMITS[1]	CHARGES[2]	REPURCHASE (REPAYMENT) TERMS[3] OBLIGATION SCHEDULE (YEARS)	EXPECTATION SCHEDULE (YEARS)	INSTALLMENTS
Annual: 100% of quota; cumulative: 300% of quota.	Rate of charge plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300% of quota).[5]	3¼–5	2¼–4	Quarterly
Annual: 100% of quota; cumulative: 300% of quota.	Rate of charge plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300% of quota).	4½–10	4½–7	Semiannual
No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit.	Rate of charge plus surcharge (300 basis points, rising by 50 basis points a year after first disbursement and every 6 months thereafter to a maximum of 500 basis points).	2½–3	2–2½	Semiannual
45% of quota each for export and cereal components. Combined limit of 55% of quota for both components.	Rate of charge.	3¼–5	2¼–4	Quarterly
Generally limited to 25% of quota, though larger amounts can be made available in exceptional cases.	Rate of charge; however, the rate of charge may be subsidized to 0.5 percent a year, subject to resource availability.	3¼–5	Not applicable	Quarterly
140% of quota; 185% of quota in exceptional circumstances.	0.5%	5½–10	Not applicable	Semiannual
Annual: 25% of quota (norm for annual access); cumulative: 50% of quota except in exceptional circumstances.	0.5%	5½–10	Not applicable	Semiannual

3 For purchases made after November 28, 2000, members are expected to make repurchases (repayments) in accordance with the schedule of expectation; the IMF may, upon request by a member, amend the schedule of repurchase expectations if the Executive Board agrees that the member's external position has not improved sufficiently for repurchases to be made.

4 *Credit tranches* refer to the size of purchases (disbursements) in terms of proportions of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the first credit tranche and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Requests for disbursements above 25 percent are referred to as *upper* credit tranche drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are normally associated with a Stand-By or Extended Arrangement. Access to IMF resources outside an arrangement is rare and expected to remain so.

5 Surcharge introduced in November 2000.

TABLE 4.2

Arrangements under main facilities approved in FY2008

(In millions of SDRs)

MEMBER	TYPE OF ARRANGEMENT	EFFECTIVE DATE	AMOUNT APPROVED
Gabon	36-month Stand-By	May 7, 2007	77.2
Honduras	12-month Stand-By	April 7, 2008	38.9
Iraq	15-month Stand-By	December 19, 2007	475.4
Liberia	36-month Extended Fund Facility	March 14, 2008	342.8
SUBTOTAL			**934.2**
Paraguay (decrease)[1]	27-month Stand-By	October 15, 2007	(35.0)
TOTAL			**899.2**

1 Only the amount of the decrease is shown.

Source: IMF Finance Department.

TABLE 4.3

PRGF arrangements approved in FY2008

(In millions of SDRs)

MEMBER	EFFECTIVE DATE	AMOUNT APPROVED
NEW ARRANGEMENTS		
Guinea	December 21, 2007	48.2
Liberia	March 14, 2008	239.0
Nicaragua	October 5, 2007	71.5
Togo	April 21, 2008	66.1
SUBTOTAL		**424.8**
AUGMENTATION[1]		
Burkina Faso	January 9, 2008	9.0
SUBTOTAL		**9.0**
TOTAL		**433.8**

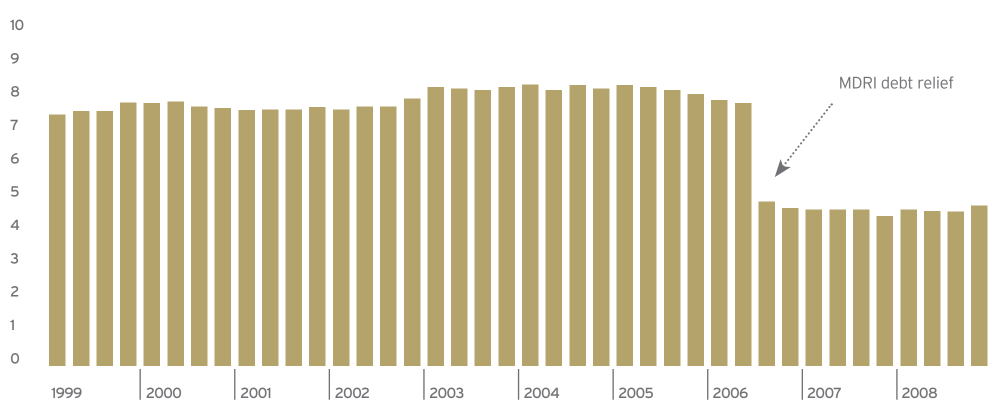
1 For the augmentation, only the amount of the increase is shown.

Source: IMF Finance Department.

FIGURE 4.1

Concessional loans outstanding, FY1999–FY2008

(In billions of SDRs)



(Emergency Natural Disaster Assistance, or ENDA). Countries that are eligible for concessional lending under the PRGF can make use of financing under the Exogenous Shocks Facility and are also eligible for emergency assistance at subsidized interest rates.[49] During FY2008, the Executive Board approved emergency assistance totaling SDR 218.5 million. Of this amount, two requests were approved under ENDA (SDR 133.3 million for Bangladesh and SDR 2.1 million for Dominica), and three under EPCA (two requests, each in the amount of SDR 40.7 million, were approved for Côte d'Ivoire, and one of SDR 1.8 million for Guinea-Bissau). As of April 30, 2008, three countries—Côte d'Ivoire, Guinea-Bissau, and Lebanon—had outstanding EPCA credit, which amounted to SDR 133.8 million, and five—Bangladesh, Dominica, Grenada, Maldives, and Sri Lanka—had outstanding ENDA credit, for a total of SDR 245.4 million.

In recent years, a number of countries have chosen to repay their outstanding credit to the Fund ahead of schedule. For example, in FY2008, Bolivia, Iraq, and the former Yugoslav Republic of Macedonia completed advance repayment of their outstanding obligations to the IMF, for a total of SDR 330.9 million.

More generally, a number of Fund members have transitioned from a financial and surveillance relationship with the Fund to one that is principally a surveillance relationship, thanks to their improved macroeconomic conditions and ready access to private capital following five years of exceptional broad-based global growth and buoyant financial market conditions. The need for Fund financing has been especially modest over the past few years for middle-income member countries, which traditionally have been the major users of Fund resources in the credit tranches, and approvals of Stand-By and Extended Arrangements have declined. Many low-income countries have also benefited from improved macroeconomic policies, the favorable global environment, and strong demand for commodities. Although demand for financing under the PRGF remains strong, fewer PRGF arrangements were approved in FY2008 than in previous years, reflecting, in part, a shift to use of the Fund's Policy Support Instrument (PSI; see below).

Emerging market economies

In recent years, emerging market economies as a group have become a source of strength for the global economy, and their demand for traditional Fund financial support has decreased. Many have built sizable reserves for self-insurance purposes and have shown resilience in the face of recent financial market turbulence. More flexible exchange rates and increased reliance on local currency–denominated debt have reduced two sources of vulnerability. The Board has underscored the importance of strengthening debt management in these economies, and several major emerging markets, with the Fund's engagement, have implemented policies to strengthen economic fundamentals. However, continued market turbulence could increase risks for those dependent on short-term capital inflows to finance large current account deficits and rapid domestic credit growth.

New instruments for emerging market economies

Given the evolving nature of emerging market vulnerabilities, the Fund continues to explore whether its financial instruments meet the needs of emerging market economies. There has been some encouraging support for a proposed rapid access line (RAL).[50] Members continue to have mixed views, however, about some elements of the design, and a consensus on the type of instrument that would be most useful to member countries has not been reached. Nevertheless, in view of recent global financial turbulence, the Fund is pushing forward its work on the modalities of a new liquidity instrument and is also considering suggestions made by some Executive Directors for a financial stability line for countries integrating into global capital markets and pursuing financial sector reforms.

Low-income countries

The Fund remains closely engaged with low-income countries, while refocusing its role by concentrating on its core areas of expertise—macroeconomic policies and institutions that support the stability necessary for sustained growth and poverty reduction—and doing less on noncore structural issues. While the policy advice, financing, and capacity-building assistance (see below) it provides are tailored to each country's needs, it also draws on its cross-country experience

49 Since 2001, bilateral contributions have allowed the IMF to provide EPCA to low-income countries at a reduced rate of 0.5 percent per year, from which 16 low-income countries have benefited to date. In early 2005, when subsidization was extended to cover ENDA, the Executive Board set an initial goal of raising additional contributions of SDR 45–65 million to cover the estimated needs for the five-year period through 2009. Since 2005, 17 countries have committed SDR 29 million, prompting the IMF to intensify its resource mobilization efforts. The aim now is to secure SDR 100 million in contributions to cover projected subsidization costs through 2014. See CD-Tables 4.1 and 4.2 on the CD-ROM for the lists of countries that have pledged contributions, or contributed, to the Exogenous Shocks Facility and Emergency Assistance.

50 The proposed instrument's name has been changed from a "reserve augmentation line" to a "rapid access line" to better reflect its purpose.

LEFT: Street in Monrovia, Liberia. RIGHT: IMF Managing Director and Executive Board members meet with Tanzanian President Jakaya Kikwete, Dar es Salaam, Tanzania.

51 See *IMF Annual Report 2007*, pages 42–43, and the Web site of the Independent Evaluation Office for more information: www.ieo-imf.org.

52 The summing up of the Board discussion, "IMF Executive Board Discusses the Fund's Role in the Poverty Reduction Strategy Process and Its Collaboration with Donors," PIN 07/130, can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2007/pn07130.htm.

and perspective. To improve the focus and increase the coherence of the Fund's policy work on low-income countries, and to promote the exchange of information and the Fund's engagement with donors, the Fund's interdepartmental Low-Income Committee is being revamped. As some low-income countries grow and mature, the Fund is likely to place additional emphasis on issues such as the policy response to capital inflows, commodity price booms and busts, and financial market development, while growth, poverty reduction, and debt sustainability will remain top priorities. The Board is scheduled to examine in depth the Fund's role in low-income countries early in FY2009.

Clarifying the Fund's role in low-income countries

To clarify the Fund's role in, and reinforce its engagement with, low-income countries, the IMF's Managing Director traveled to Burkina Faso, Nigeria, Senegal, and Tanzania in February 2008 for discussions with African leaders and representatives of the private sector and civil society about the challenges facing sub-Saharan Africa and the IMF's role in the region, as well as to hear firsthand how the IMF can best support its members' efforts to enhance growth and reduce poverty. The IMF's Executive Directors also visited a number of African countries in February, meeting with heads of state and high-ranking officials as well as a wide range of stakeholders, including representatives of the public and private sectors, civil society, and development partners.

In June 2007, the Executive Board also discussed the implementation plan for Board-endorsed recommendations in the Independent Evaluation Office's report on the IMF and aid to sub-Saharan Africa (see Chapter 5). While confirming the improvement in the region's macroeconomic performance during 1999–2005, which it attributed in part to the advice and actions of the IMF, the Board identified areas where further improvements were needed, including the IMF's role in poverty reduction efforts, the mobilization of aid, the preparation of alternative scenarios for reaching the Millennium Development Goals, and the application of poverty and social impact analysis.[51]

The Fund's financial support for low-income countries continues to be important in itself as well as in catalyzing support from other donors. In October 2007, the Executive Board discussed the IMF's role in the poverty reduction strategy (PRS) process and its collaboration with donors, reiterating that the primary focus of the IMF's work in low-income countries in the context of the PRS process should be to provide policy advice on, and technical support for, the design of appropriate macroeconomic frameworks and macroeconomically critical structural reforms.[52] Noting that PRSPs have become the accepted operational framework for countries' poverty reduction efforts and for the coordination of external support for their efforts to achieve the MDGs, Executive Directors concurred that the IMF's principal contribution to the MDG effort lies in helping countries maintain macroeconomic stability, debt sustainability, and appropriate fiscal frameworks, observing that the Fund should also continue to press for more predictable and more effective aid.

Executive Directors agreed that close collaboration with other development partners is essential for effective IMF engagement with its low-income members and a successful refocusing of the Fund's role and called for a deepening of this collaboration, with greater emphasis on delineating areas of competence and the division of labor. At the same time, Executive Directors stressed that country ownership of the aid process is essential to successful donor coordination, emphasizing the country-level understandings between the authorities, the IMF, the World Bank, and other development partners as a critical element of the collaboration with donors. In FY2008, the Fund strengthened its collaboration with the World Bank with the implementation of the Joint Management Action Plan and pilot projects in the areas of public financial management, the financial sector, and natural resource management in a number of African countries (see Chapter 5).

Debt relief and debt management

Additional countries benefited from debt relief under the HIPC Initiative and MDRI in FY2008, and changes were introduced into the HIPC framework to add Staff-Monitored Programs (SMPs) that meet certain standards to the instruments that HIPCs may use in building a track record to reach the decision point under the HIPC Initiative (see below). Liberia, one of three HIPC-eligible countries with protracted arrears to the Fund, was the first to benefit from the change, reaching its decision point in March (see Box 4.1).[53]

As of April 30, 2008, 33 countries had reached the decision point under the enhanced HIPC Initiative; of these, 23 had reached their completion points. In total, the IMF has committed SDR 2.3 billion under the HIPC Initiative and disbursed SDR 1.7 billion. During FY2008, three member countries (Afghanistan, the Central African Republic, and Liberia) reached their decision points, and one additional country (The Gambia) reached its completion point. In addition, the Executive Board approved disbursement of HIPC topping-up assistance to São Tomé and Príncipe.

The MDRI was launched in early 2006 to further reduce the debts of qualifying low-income countries and free up resources that they could use to meet the MDGs. Under the established financing framework for the MDRI, qualifying members can receive 100 percent debt relief on the full stock of debt owed to the IMF at end-December 2004 that remains outstanding at the time the member qualifies for such debt relief and is not covered by assistance under the HIPC Initiative.[54] (See CD-Tables 4.3 and 4.4 on the CD-ROM.)

In January 2008, the Executive Board amended the PRGF-HIPC Trust Instrument to add SMPs meeting policy standards associated with programs supported by arrangements in the upper credit tranches or under the PRGF to the instruments HIPCs may use to build a track record toward reaching the decision point under the HIPC Initiative.[55] The amendment is aimed at giving these countries credit, in appropriate circumstances, for their record in implementing strong programs of macroeconomic stabilization and structural reform during the period when the Fund and other international institutions are securing the financing assurances needed for the clearance of arrears and provision of debt relief.

In September 2007, the Executive Board considered the status of implementation of the HIPC Initiative and the MDRI and discussed the financing of the Fund's concessional assistance and debt relief to low-income member countries.[56] Executive Directors expressed concern that, in spite of the delivery of debt relief under the HIPC Initiative and the MDRI and the resulting declines in debt ratios, long-term debt sustainability remains a key challenge for most HIPCs. They emphasized that HIPCs need to increase domestic revenue mobilization, diversify their production and export bases, and strengthen their public institutions to address their underlying vulnerabilities and ensure long-term debt sustainability. They also strongly underscored the importance of strengthening public debt management and encouraged HIPCs to follow responsible financing strategies based on their debt sustainability analyses. In addition, they emphasized that staff should continue to provide TA to HIPCs to improve their debt-management capabilities and help them develop medium-term debt strategies. They called on all creditors to ensure that lending to HIPCs does not result in a rapid reaccumulation of debt and is provided in a transparent manner.

A project aimed at enhancing low-income countries' debt-management capabilities has been initiated with the World Bank, and training is being provided to country officials to enable them to use the Debt Sustainability Framework as a policy tool (see "Building Institutions and Capacity" below). In FY2008, Fund staff worked closely with the export credit group in the OECD to define the sustainable lending principles agreed in January 2008. The principles commit OECD export credit agencies to observe IMF and World Bank concessionality requirements in low-income countries where they exist and to take into account the results of debt sustainability analyses for other

53 See "IMF Executive Board Fully Restores Liberia's IMF Status, Approves Financial Support Amounting to US$952 Million and HIPC Decision Point Designation," PR 08/52, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2008/pr0852.htm. To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. After establishing a track record of good performance and developing a PRSP or an interim PRSP, the country is said to have reached its decision point, at which time the IMF and the World Bank formally decide on the country's eligibility and the international community commits itself to reducing the country's debt to a sustainable level. The country must then continue its good track record with the support of the international community, implementing key policy reforms, maintaining macroeconomic stability, and adopting and implementing a PRSP. Paris Club and other bilateral and commercial creditors are expected to reschedule obligations coming due. A country reaches its completion point once it has met the objectives set at the decision point. It then receives the balance of the debt relief committed.

54 When the MDRI was established, the cost to the IMF of providing MDRI debt relief was estimated at SDR 2.6 billion.

55 The summing up of this Board discussion, "IMF Executive Board Modifies HIPC Initiative," PIN 08/03, can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2008/pn0803.htm.

56 The summing up of this Board discussion, "IMF Executive Board Discusses Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries," PIN 07/122, can be found on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2007/pn07122.htm. The Board's discussion was based on a joint IMF–World Bank paper, "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation," which is available on the Fund's Web site, www.imf.org/external/np/pp/2007eng/082807.pdf, along with a joint IMF–International Development Association paper, "Enhanced Heavily Indebted PoorCountries (HIPC) Initiative—Status of Non–Paris Club Official Bilateral Creditor Participation," www.imf.org/external/np/pp/2007/eng/091007.pdf, which served as a background to the Board's discussion.

Liberia cleared its arrears to the Fund in March 2008, following its clearance of arrears to the World Bank and the African Development Bank in December 2007, and received concessional debt treatment from the Paris Club in April 2008. Further steps are being taken to regularize relations with other creditors.

BOX 4.1

Liberia: Clearance of IMF arrears

After having been in continuous arrears to the IMF since 1984, on March 14, 2008, Liberia regularized its relations with the Fund through the clearance of SDR 543 million of arrears. Improved cooperation with the Fund, including satisfactory performance under a Staff-Monitored Program of upper-credit-tranche policy quality, paved the way for Liberia's arrears clearance. The clearance of Liberia's arrears and subsequent quota increase under the Eleventh General Review was facilitated by intraday bridge loans provided by the United States. In addition, a large number of IMF member countries contributed to the financing package required to provide debt relief to Liberia. These bilateral contributions were facilitated by the partial distribution of the balance in the Fund's first Special Contingency Account (SCA-1), accumulated as reserves to guard against possible credit losses, and the proceeds of deferred-charges adjustments that had been used to offset the impact on Fund income from Liberia's arrears (see Chapter 5).

Following clearance of Liberia's arrears, the Executive Board restored the country's voting and related rights and its eligibility to use the general resources of the Fund and lifted the suspension of its rights to use SDRs. On this basis, and in light of the existence of satisfactory assurances as to the availability of resources to finance the Fund's debt relief for Liberia, in FY2008 the Board approved Liberia's request for arrangements totaling SDR 582 million under the PRGF and Extended Fund Facility, decided that Liberia had reached the decision point under the enhanced HIPC Initiative, and approved Liberia's request for interim HIPC assistance.

low-income countries. The Fund and the World Bank have also established dedicated Web pages to make information on country-specific debt sustainability analyses and concessionality issues more accessible to donors and creditors.[57]

Nonfinancial support

The Fund provides nonfinancial program support to low-income countries through Policy Support Instruments. Two PSIs were approved in FY2008 (for Mozambique and Senegal), bringing to six the number of countries for which PSIs have been approved to date. (PSIs were approved for Nigeria in FY2006 and for Cape Verde, Tanzania, and Uganda in FY2007.) The Executive Board established the framework for PSIs in FY2006 to address the requirements of low-income countries that no longer need or want IMF financial assistance but that still seek IMF advice on, and monitoring and endorsement of, their economic policies. PSIs also perform a "signaling" function—that is, they indirectly provide information about countries' economic performance and prospects that can be used to inform the decisions of outsiders (for example, private creditors, donors, and the general public). PSIs mirror the design of and achieve many of the same purposes as PRGF arrangements and, like PRGF arrangements and debt relief, are based on development of a poverty reduction strategy. In the event of an exogenous shock, on-track PSIs can provide the basis for rapid access to ESF resources.

Scaling up of aid

The international community has committed to scaling up aid and improving aid delivery to low-income countries to help them meet the MDGs (Box 4.2). Through its policy advice, financial support (including debt relief), and TA, the IMF has worked to help countries establish a macroeconomic environment that will enable them to use aid effectively. In July 2007, the Executive Board discussed the implications of the

57 See "The Debt Sustainability Framework for Low-Income Countries: Introduction," on the IMF's Web site, at www.imf.org/external/pubs/ft/dsa/lic.htm.

BOX 4.2

Global Monitoring Report finds progress toward MDGs off track

The IMF and the World Bank track the progress made by low-income countries toward the achievement of the Millennium Development Goals, jointly publishing their findings annually in the *Global Monitoring Report* (GMR). The fifth GMR, issued in April 2008 and titled *Global Monitoring Report: MDGs and the Environment—Agenda for Inclusive and Sustainable Development*, found that although much of the world is set to cut extreme poverty in half by 2015, poor countries are unlikely to achieve the goals of reducing child and maternal mortality. Serious shortfalls are also likely with respect to primary school completion, nutrition, and sanitation goals.[1]

The report stressed the link between the environment and development and called for urgent action on climate change, warning that developing countries stand to suffer the most from climate change and the degradation of natural resources. To build on hard-won gains, developing countries need support to address the links between growth, development, and environmental sustainability.

Progress toward the MDGs differs dramatically across countries, regions, and income groups. Sub-Saharan Africa lags on all counts, including the goal for poverty reduction, although many countries in the region are now experiencing improved growth performance. However, with stronger efforts by both the countries themselves and their development partners, most MDGs remain achievable for most countries. The report lays out an integrated six-point agenda, with strong, inclusive growth at the top, and calls for more effective aid; a successful outcome to the Doha Round of trade talks; more emphasis on strengthening programs in health care, education, and nutrition; and financing and technology transfers to support climate change mitigation and adaptation.

1 See "Progress Toward Nutrition, Health, Education, and Other Development Goals Off Track, Global Monitoring Report Finds," PR 08/75, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2008/pr0875.htm. The GMR can be found on the IMF's Web site, at www.imf.org/external/pubs/ft/gmr/2008/eng/gmr.pdf.

planned scaling up of aid to low-income countries for the role of the Fund and the design of Fund-supported policy programs—in particular, design of fiscal, monetary, and exchange rate policies (Box 4.3).[58]

Food and fuel prices

In FY2008, the Fund set up an interdepartmental task force on food and fuel prices, which presented its work program to the Executive Board at a briefing in April 2008. The Board had a wide-ranging discussion on the appropriate response to the food and fuel crisis, use of Fund facilities, and provision of policy advice. The Board approved the work program, and the work of the task force is proceeding on three fronts: diagnosing the problem; collaborating with other institutions participating in the High-Level Task Force on the Global Food Security Crisis, which includes a number of UN agencies and the World Bank, to ensure that the Fund's contribution (including financial support) is coordinated with international efforts to address the difficulties posed by price increases; and providing policy advice to the most vulnerable countries, while ensuring that the policies put in place are sustainable over the medium and long terms.

The Fund has provided a comprehensive note on policy options as background for deliberations of the finance ministers of the West African Economic and Monetary Union's member countries[59] and is advising PRGF-eligible and other countries on possible policy responses to higher food prices, particularly measures that target the poor. In April 2008, Fund staff went to Haiti, a large net importer of food, to assess the impact of rising food prices on the government's economic program and to discuss the kind of support that would best serve Haiti's needs. A number of countries, mostly in Africa, have asked for extra financial support (through their PRGF arrangements) to cover higher food import costs, and in early FY2009 the Executive Board approved financial support through the PRGF

58 The discussion took place in the context of a review of two staff papers synthesizing recent IMF work on accommodating scaled-up aid flows. These papers are available on the IMF's Web site: "Aid Inflows—The Role of the Fund and Operational Issues for Program Design," www.imf.org/external/np/pp/2007/eng/061407.pdf, and "Fiscal Policy Response to Scaled-Up Aid," www.imf.org/external/np/pp/2007/eng/060507.pdf. The summing up of the Board's discussion, "IMF Executive Board Discusses Operational Implications of Aid Inflows for IMF Advice and Program Design in Low-Income Countries," PIN 07/83, can be found on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2007/pn0783.htm.

59 This note, "Food and Fuel Price Increases in Sub-Saharan Africa: Background Note for WAEMU Meeting on April 23, 2008, in Abidjan," can be found on the CD-ROM.

BOX 4.3

Scaled-up aid to low-income countries: Operational implications

In July 2007, the Executive Board discussed the operational implications of scaled-up aid for IMF advice and program design. Noting that scaling up of aid had not yet been widely observed, Executive Directors reiterated that IMF engagement in low-income countries should continue to be focused on the Fund's core areas. They welcomed the finding that Fund-supported programs had become more accommodating of the use of aid and more supportive of pro-poor spending.

Executive Directors supported a focus on identifying best practices for the design of macroeconomic policies in IMF-supported programs in the context of scaled-up but volatile and uncertain aid flows, stressing that, in an environment of scaled-up aid, macroeconomic policy formulation should be based on a longer-term view of spending plans and potential resource availability, with medium-term frameworks the appropriate policy tools for this purpose. Observing that aid disbursements are often volatile, they saw merit in smoothing expenditures over time so that programs are adequately funded, and underscored the need for careful monitoring of spending to ensure debt sustainability, noting that inefficient spending would simply add to debt burdens without improving economic and social outcomes.

Executive Directors underscored the importance of coordinating fiscal, monetary, and exchange rate policies in managing aid inflows, and many noted that scaling up strengthened the case for exchange rate flexibility, while a regime of managed floating could pose difficult challenges for policy and program design. They saw a continuing critical role for the Fund in advising member countries on exchange rate policies and recommended that monetary programs should seek to reconcile the absorption of aid with price stability and reserve adequacy, while avoiding the crowding out of private investment.

Executive Directors considered that measures for eventually reducing reliance on aid should be an integral component of macroeconomic policy for managing scaled-up aid. They emphasized that strengthening fiscal institutions and public financial management (PFM) systems is critical for effective use of scaled-up aid and called upon low-income countries to prepare appropriately sequenced and prioritized action plans for strengthening their PFM systems, based on a diagnostic assessment of existing systems. These plans should prioritize reform measures consistent with local capacity to undertake such reforms. With the growing trend toward decentralization, Executive Directors emphasized the need for effective PFM systems at subnational levels, where much social spending takes place. Executive Directors stressed the need for continued donor support, including TA, to low-income countries for developing and implementing PFM action plans.

for seven countries whose balance of payments will be severely affected by the rising costs of food and fuel imports. The Board is also considering ways to modify the Exogenous Shocks Facility to enhance its usefulness.

In April 2008, the African Consultative Group met at IMF headquarters in Washington, D.C.,[60] to discuss the impact of high world food and fuel prices and the challenges they present for policymakers in sub-Saharan Africa and globally. The Group agreed that policies should aim at helping those least able to cope with high prices, while not jeopardizing hard-won gains on economic stabilization, and observed that although temporary, targeted subsidies can help protect the most vulnerable from the effect of shocks, it is necessary to ensure that subsidies do not become permanent. Although countries should aim to put in place an efficient social safety net, the Group noted that this is not always easy, and some second-best solutions may be appropriate.

The Group agreed that countries that have a comparative advantage in food production should remove impediments to domestic agricultural production (noting that several were already doing so) and that countries should avoid distortionary policies such as untargeted subsidies. The Managing Director reiterated the IMF's readiness to support countries in designing macroeconomic policies to deal with shocks, including the creation of fiscal space for safety nets. The Group supported the call for bilateral and multilateral donors to substantially increase food aid.

Aid for trade

In September 2007, the Executive Board discussed a joint IMF–World Bank paper on efforts by the multilateral community to support the integration of developing countries into the global economy.[61] Executive Directors welcomed initiatives by the World Trade Organization (WTO) and other institutions to enhance aid for trade and improve its coordination and delivery. While regretting that trade in products of interest to the poorest countries continues to be subject to many obstacles in both developed and developing economies, Executive Directors pointed out that many existing trade opportunities remain unexploited because of infrastructural and other domestic supply constraints as well as policy weaknesses and governance issues, and that aid for trade could help low-income countries take greater advantage of existing and new trade opportunities. They also noted that benefits from aid for trade could be magnified if accompanied by strengthened policy frameworks, including further trade reforms.

Executive Directors agreed that individual countries' priorities for trade-related reforms and for strengthening competitiveness need to be properly identified with support from trade diagnostic studies under the Enhanced Integrated Framework (EIF) and integrated in national development and poverty reduction strategies. Executive Directors also stressed the importance of securing increased financing for the EIF and urged donors to fulfill their pledges on all trade-related aid.

Program design

In FY2008, the Executive Board concluded a review of the Fund's access policy in the credit tranches and under the Extended Fund Facility (EFF) and PRGF, and the Fund's exceptional access policy; discussed an IEO report on structural conditionality in IMF-supported programs; and considered a new approach for fragile states under a two-phase Economic Recovery Assistance Program (ERAP).

Access policy

The Executive Board periodically reviews the Fund's access policy—that is, the limits and guidelines that govern the amount of financing the Fund makes available to its members in support of their economic programs. Reviews include consideration of the normal limits applying to the use of resources in the credit tranches (normally under Stand-By Arrangements) and under the EFF, as well as the framework for exceptional access, which guides decisions on financing beyond the normal limits. Reviews also consider the policies for lending under the PRGF. At the conclusion in February 2008 of the Board's latest review, most Executive Directors agreed that the guidelines and limits underlying the Fund's access policy remain appropriate and supported maintaining the current limits, although some Executive Directors saw a need for increasing access limits, as the resources available to some dynamic members have not kept pace with trade and capital flows. Executive Directors also reaffirmed that access decisions should continue to be guided by a member's need for financing; its

60 This was the third meeting of the Group, which was formed in April 2007 to enhance the IMF's policy dialogue with the African Caucus. It comprises members of the African Caucus and the IMF's Managing Director.

61 See "IMF Executive Board Discusses Aid for Trade," PIN 08/14, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2008/pn0814.htm. The paper, "Aid for Trade: Harnessing Globalization for Economic Development," is available on the IMF's Web site, at www.imf.org/external/np/pp/2007/eng/080107.pdf.

capacity to repay its obligations to the Fund, including the strength of its adjustment program; and the amount of its outstanding financial obligations to the Fund. Most Executive Directors considered that the exceptional access framework and the current access limits and norms for lending under PRGF remain broadly appropriate and that no changes are needed at this time.[62]

Structural conditionality in IMF-supported programs

In December 2007, the Board discussed an IEO evaluation of structural conditionality in IMF-supported programs. Executive Directors broadly agreed with the IEO's findings and noted that the IEO assessment gives useful impetus to efforts to make the Fund more focused and relevant. It commended the shift the IEO found in the composition of structural conditionality toward the Fund's core areas, but most Executive Directors expressed concern about the IEO finding that the number of structural conditions had not declined significantly, and that some structural conditionality might have covered areas not critical to program goals. The Board broadly supported strengthened efforts to streamline conditionality, with parsimony as the guiding principle and a focus on measures critical to achieving program objectives. Another area of concern was the IEO's finding that compliance rates on structural conditionality had been low in many cases, and that, often, structural conditionality had not spurred further reforms. To enhance broad national ownership of reforms, the Board called for greater reliance on the authorities' views in setting conditions. The Executive Board considered management's implementation plan for Board-endorsed recommendations in early FY2009.

Fragile states

In March 2008, the Executive Board considered a new approach—a two-phase Economic Recovery Assistance Program—for helping fragile states.[63] Under the first phase of the proposed ERAP, the IMF would provide TA but no financing. The second phase would allow for financing with limited but well-focused conditionality with a view to further strengthening economic performance and policy implementation to enable recipients to meet the standards of upper-credit-tranche financing as quickly as possible.

Executive Directors generally agreed that there was scope to improve the Fund's capacity to assist low-income fragile states, with many seeing merit in a graduated, flexible, medium-term programmatic approach. They stressed that the Fund should focus on helping fragile states rebuild their institutional capacity to implement macroeconomic policy advice and basic economic reforms. There was agreement that the Fund's engagement could help catalyze international financial support for the country and lay the groundwork for debt relief. Many Executive Directors also saw merit in the proposed approach, while a number of others considered that the necessary improvements in the Fund's engagement with low-income fragile states could be achieved in the context of the Fund's existing toolkit of TA, surveillance, assessment letters, Staff-Monitored Programs, and EPCA. Management will return to the Board with operational proposals that reflect the Board's views; the results of outreach to member countries conducted during the IMF–World Bank Spring Meetings in April 2008; and further planned outreach to donors and other stakeholders.

62 See "IMF Executive Board Concludes Review of Access Policy in the Credit Tranches and Under the EFF and the PRGF, and Exceptional Access Policy," PIN 08/30, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2008/pn0830.htm.

63 The Fund roughly defines fragile states as countries (including post-conflict countries) whose economic and social performance is substantially impaired by weak governance, limited administrative capacity, persistent social tensions, and a tendency to conflict and political instability. The summing up of the Board discussion "IMF Executive Board Discusses the Fund's Engagement in Fragile States and Post-Conflict Countries—A Review of Experience," PIN 08/43, can be found on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2008/pn0843.htm. The Board's discussion was based on a staff paper, "The Fund's Engagement in Fragile States and Post-Conflict Countries—A Review of Experience—Issues and Options," which can be found on the IMF's Web site, at www.imf.org/external/np/pp/eng/2008/030308.pdf.

LEFT AND RIGHT: Training at the IMF-Singapore Regional Training Institute, Singapore.

64 A paper on TA reforms was prepared by the Fund's Office of Technical Assistance Management, in collaboration with other departments, and submitted to the Executive Board in FY2008. At a meeting in early FY2009, the Board broadly supported the reforms put forward by the staff. See "IMF Executive Board Discusses Reforms to Enhance the Impact of Fund Technical Assistance," PIN 08/58, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2008/pn0858.htm, and the paper, "Enhancing the Impact of Fund Technical Assistance," available on the IMF's Web site, at www.imf.org/external/np/pp/eng/2008/040308a.pdf.

BUILDING INSTITUTIONS AND CAPACITY

The Fund's TA and training are critical instruments in helping member countries design and implement good policies, thereby contributing to the stability of the global economy. In some areas, such as the development of sound fiscal and monetary institutions, the Fund may be the best—or the only—source of advice and training for members. However, in an environment of resource constraints, the Fund needs to prioritize and to adopt a more strategic approach, and therefore reforms have been undertaken as part of the refocusing of the Fund's work to enhance the impact of its capacity-building activities.

Strengthening the effectiveness and efficiency of TA

The IMF provides TA in its core areas of expertise—namely, macroeconomic, monetary, exchange rate, and tax policy; revenue administration; expenditure management; financial sector stability; legislative frameworks; and macroeconomic and financial statistics. About 80 percent of the Fund's TA is provided to low- and lower-middle-income countries (Figure 4.2). The substantial changes being made to Fund TA have a number of objectives, including[64]

- enhancing the integration of TA with Fund surveillance and lending;
- improving prioritization of TA by better aligning it with the strategic objectives of recipient countries and the Fund;
- better integrating TA into the Fund's medium-term budget to make it easier to set priorities and to allow TA to be more responsive to changes in priorities;
- widening the dissemination of TA findings to increase sharing of lessons learned and facilitate coordination with donors and other TA providers;
- making TA evaluations more systematic through the introduction of performance indicators; and
- enhancing budgeting, costing, and financing of TA.

As the primary link between the institution and member countries, Fund area departments have assumed lead responsibility for setting TA strategies in coordination with country authorities. Presented in Regional Strategy Notes (RSNs), TA plans articulate the priorities shared by the Fund and country authorities. They are portrayed in a medium-term setting to ensure an appropriate balance between short-term policy needs and medium-term capacity-building requirements. The medium-term approach also facilitates full integration of TA plans with the Fund's operating budget and donor timing. Experience with RSNs as a new initiative will be reviewed in FY2009, and refinements made as necessary.

Measuring the performance of Fund TA is a critical aspect of institutional accountability and governance. Plans to strengthen TA governance and performance measurement include (1) introducing quantitative performance indicators Fund-wide to help make the assessment of TA delivery more transparent and accountable; (2) clearly specifying objectives and deliverables against which results can be measured; (3) evaluating TA more systematically; (4) costing TA more accurately and transparently; and (5) considering a broader charging scheme for TA, which could further improve efficiency and accountability in resource use by subjecting TA to a "value-for-money" market test.

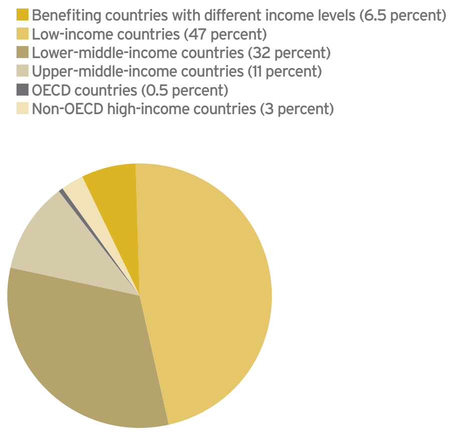
Pressures on Fund finances will continue to dictate that resource use be even better planned and more transparently managed than before, and the Fund is exploring ways to harness new external resources for TA and increasing its engagement with donor partners (Figure 4.3). At the same time, however, financing options need to take into account the unique nature of Fund TA, which not only contains elements of a public good benefiting the international economy, but also enhances the effectiveness of aid flows generally.

The Fund's six regional TA centers (RTACs)—in the Pacific; the Caribbean; East, West, and Central Africa; and the Middle East—provide a particularly vivid illustration of successful Fund-donor collaboration. The RTACs receive the bulk of their funding from donor countries, international agencies, and regional development banks, many of which have singled out the RTACs' governance structure for special praise. Under this framework, strategic guidance for each center's work program is provided by a steering committee comprising representatives from beneficiary countries, donors, and the Fund, an arrangement that has ensured strong ownership of each center's activities by all stakeholders. In light of the positive experience with RTACs, plans are being pursued to establish new

FIGURE 4.2

Fund TA is focused on low-income and lower-middle-income countries[1]

(TA field delivery in person-years; average over FY2003–08)



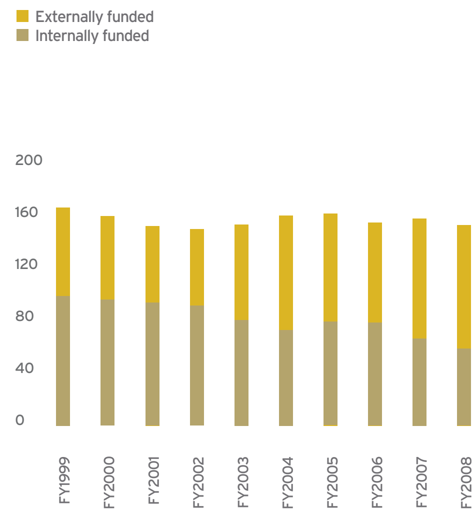
1 Excludes the Caribbean Regional Technical Assistance Center

Note: Per capita income: $11,115 < high; $3,595 < upper-middle < $11,115; $905 < lower-middle < $3,595; low < $905.

FIGURE 4.3

External funds have increasingly financed TA field delivery

(In person-years)



centers, including in Central America, Central Asia, West Africa, and southern Africa. Because RTACs have a more hands-on approach, they complement topical trust funds, which could support more specialized TA on specific issues. Donor interest and participation in both initiatives are expected to be strong.

Selected TA activities in FY2008

TA is provided by a number of Fund departments; the largest providers include Fiscal Affairs (FAD), Monetary and Capital Markets (MCM), and Statistics (STA).

FAD helps IMF member countries improve fiscal policies and institutions, including by strengthening their macro-fiscal frameworks, reforming tax and expenditure policies, and modernizing public financial management (PFM) and revenue administration. In FY2008, demand was particularly strong for TA in PFM, expenditure policy, natural resource taxation, and value-added tax (VAT) implementation. In addition to providing advice on a range of matters related to the budgetary process, the department launched a blog on PFM on the IMF's Web site to share its experience and expertise with practitioners and the public, and organized two seminars on performance budgeting. It also provided TA related to the financial oversight of public-private partnerships, and advised countries on how to address the distributional implications of macro-critical reforms with respect to subsidies, domestic pricing mechanisms, and tariffs and taxes, among other things. TA related to tax policy and revenue administration covered such areas as fiscal regimes for natural resource-rich countries; design, reform, and implementation of VAT systems; regional tax coordination; and customs modernization. Regional courses and workshops are an important component of TA on tax policy. In post-conflict countries, FAD provided TA on performance budgeting, PFM, and the rebuilding of revenue administration capacity. FAD also arranged the International Tax Dialogue conference "Taxation of Small and Medium-Size Enterprises" in Buenos Aires in October 2007, jointly with the World Bank, the OECD, the Inter-American Development Bank, and CIAT (Centro Interamericano de Administraciones Tributarias).

MCM focuses on the development and integration of capital and financial markets as well as on monetary policy and operations. It has been working to help Central American countries harmonize their capital markets, providing diagnostic and strategic TA to seven countries; publishing studies on public debt, equity, and private debt markets in the region; and organizing regional seminars and participating in other forums organized by regional organizations. It has also organized, with the support of regional and host country authorities, a series of regional workshops in emerging Asia, emerging Europe, and Latin America on the development of derivatives markets. In connection with the deepening of domestic bond markets in emerging market economies, MCM staff have organized, in collaboration with the World Bank and the Group of Eight (G-8), conferences and dialogues for policymakers, market participants, and foreign investors. MCM also collaborated with the World Bank and the OECD on the organization of a global conference on pension funds and participated in similar regional outreach events organized by Asia-Pacific Economic Cooperation (APEC), OECD, and global and regional pension fund associations.

STA's TA is focused on helping member countries meet internationally accepted data standards. STA works to develop new data series and improve the accuracy and reliability of existing data series in such areas as national accounts and price statistics, government finance, monetary and financial statistics, financial soundness indicators, and balance of payments, international investment positions, and external debt statistics. During FY2008, STA undertook 383 short-term TA missions, 160 of them to sub-Saharan Africa, and placed 14 long-term statistics advisors, 6 of them in the RTACs. (See Chapter 3 for more information about the Fund's work on data and statistics.) It also conducted 40 training courses in macroeconomic statistics through the IMF Institute and the IMF Regional Training Centers (see below) in collaboration with various organizations.

Additionally, the Fund has launched new initiatives to build capacity for public debt and fiscal risk management. A joint IMF–World Bank technical working group is developing a methodological framework for medium-term strategies for the management of public debt in low-income countries, building on the Debt Sustainability Framework. This work was endorsed by the Executive Board at a formal seminar in May 2007 at which it disussed a paper written jointly by IMF and World Bank staff on strengthening public debt management in developing countries.[65] Despite progress made by several countries in strengthening public debt management and the supporting governance framework and in deepening domestic public debt markets, many developing countries—including a number of HIPCs—continue to face policy, institutional, and operational challenges in developing effective frameworks for managing public debt. Underscoring the importance of avoiding a reaccumulation of unsustainable debt, Executive Directors supported a four-year pilot project for providing TA to low-income countries, with preference given to requests from countries that have received debt relief under the MDRI, with a view to helping them build the capacity to develop and implement an effective medium-term debt strategy. To complement TA, Executive Directors broadly supported the Fund's participation in the World Bank's initiative of developing debt-management performance indicators, and emphasized the need for coordination between the Fund and the Bank and other providers of TA in the international donor community. The Bank and Fund are also cooperating on improving debt-management systems in middle-income countries in the context of a broader asset-liability management framework.

Training by the IMF Institute

The IMF Institute (INS), in collaboration with other IMF departments, trains officials from member countries in four core areas—macroeconomic management, financial sector policies, government budgeting, and the balance of payments—including how to strengthen the statistical, legal, and administrative frameworks in these areas. About three-fourths of the training provided by the Institute benefits low- and lower-middle-income countries, and the Institute's training program accounts for about three-fourths of all IMF training for officials, including training at the RTACs.

In FY2008, the IMF Institute delivered 303 course-weeks, producing over 9,800 participant-weeks of training (see CD-Table 4.5 on the CD-ROM), an increase of about 16 percent since FY2004. The seven IMF regional training centers (RTCs; see CD-Table 4.6 on the CD-ROM) account for most of this increase. With substantial cofinancing from local cosponsors and other donors, the RTCs have provided a very cost-effective way of expanding training and now account for over

65 See "IMF Executive Board Discusses Strengthening Debt Management Practices: Lessons from Country Experiences and Issues Going Forward," PIN 07/60, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2007/pn0760.htm. The staff paper can be found on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=4189.

half of all Institute training. Training at the RTCs has other advantages: courses can be better attuned to regional needs and foster collaboration within regions. The Institute's distance learning program, which has also benefited from an infusion of donor funds, accounts for much of the remainder of the increase in training. Training at IMF headquarters, which accounted for about one-third of participant-weeks in FY2008, focuses mainly on longer courses, which are less amenable to regional delivery because of the number of IMF staff involved. The remainder of the training in FY2008 took place at overseas locations outside the regional network, largely as part of ongoing collaboration between the IMF Institute and regional institutions. In the tight IMF budget environment, the expansion of training has been greatly facilitated by increased donor funding.

Considerable efforts are being made to deepen the coverage and broaden the content of the INS curriculum, with a view to addressing the needs of member countries and supporting IMF strategic priorities, in a changing global environment. These efforts—which have been guided by extensive input from member countries, discussion with IMF management and other IMF departments, and reviews within INS—have resulted in several new or significantly upgraded courses in recent years. In FY2008, the Institute offered an overhauled version of the headquarters course on financial programming and policies, which provides much more extensive treatment of balance sheet vulnerabilities and capital account crises; another new variant of this course, placing the design of macroeconomic policy more specifically in the context of a formal or informal inflation-targeting regime; and a two week version for delivery outside of Washington, D.C., of the four-week course at headquarters on macroeconomic diagnostics.

The Institute also continues to deliver a small number of short seminars for high-level officials, including ministers and central bank governors, with a view to generating a constructive dialogue on policy issues of global or regional importance between member country officials and experts in the international financial institutions, academia, and financial markets. Seminars in FY2008 included "Market and Policy Implications of the Crisis in Asset-Backed Commercial Paper," "African Finance for the 21st Century," and "Intergovernmental Fiscal Relations in Latin American Countries."