CHAPTER 4

Modernizing the Fund

Modernizing the Fund

The protracted financial crisis accelerated and redirected the IMF's ongoing work in the areas of lending and capacity building. This chapter describes the Fund's efforts in FY2009 to continue the work begun in FY2008 to reform IMF governance, provide policy and financial support to low-income member countries, identify ways to deliver targeted and cost-effective capacity-building opportunities for members, and put the Fund on a sound, sustainable financial footing for the long term. (Efforts were undertaken as well in FY2009 to modernize the IMF's human resources function, and those are discussed in Chapter 5.)

GOVERNANCE

The 2008 quota and voice reform approved by the Board of Governors was part of a process initiated in 2006 to review issues surrounding the Fund's governance, including the realignment of members' voting power within the Fund. In addition to quota and voice reform, which is the crucial element in the reform effort, work in the area of governance reform in FY2009 developed along four tracks or "pillars": (1) follow-up on the work of the Independent Evaluation Office and its report on Fund governance reform, which the Executive Board discussed in May 2008; (2) examination of governance proposals by the Executive Board, centering on work by the Working Group on IMF Corporate Governance, which developed an implementation plan in response to the IEO's report; (3) the efforts of the Committee of Eminent Persons on IMF Governance Reform, appointed by the Managing Director in September 2008 to evaluate the Fund's decision-making framework; and (4) work by IMF staff to engage civil society and other external audiences—the "fourth pillar" of the governance reform effort.

In their initial assessment of the IEO report, the Board and the Managing Director recognized that many of the issues raised by the report were complex and interrelated and hence would require active engagement and collaboration from all levels of the institution as well as the whole membership. Emphasizing the importance, therefore, of a collaborative process, the Executive Board in October 2008 supported the Managing Director's recommendation for the formation of a joint Steering Committee of Executive Directors and Fund management to monitor and coordinate the four tracks of the governance reform effort.

Quota and voice reform

As the financial year closed, the membership was still in the process of implementing the 2008 quota and voice reform, which is necessary to start increasing the voting share of dynamic emerging markets and to provide greater voice to low-income countries. The reform includes ad hoc quota increases for 54 members and an amendment to the Articles of Agreement that will triple basic votes and put in place a mechanism to preserve the share of basic votes in total votes. It also provides for additional Alternate Executive Directors for Executive Directors with large constituencies to alleviate their heavier workload, which in the current circumstances would benefit the two African chairs. To complete the reform, eligible members need to consent to their quota increases, and the proposed amendment needs to be accepted by three-fifths of the members having 85 percent of the total voting power. As of end-April 2009, 21 of the 54 eligible members had consented to their ad hoc quota increases. In addition, 19 members, accounting for 24.1 percent of the total voting power, had accepted the amendment.

At the Spring Meetings, the IMFC called for advancing the Fourteenth General Review of Quotas so that it is completed by January 2011, some two years ahead of the original schedule. The upcoming general review of quotas is expected to result in increases in the quota shares of dynamic economies, particularly in the share of emerging market and developing countries as a whole. The Committee also expressed support for further work by the Executive Board, to begin before the 2009 Annual Meetings, on elements of the new quota formula that could be improved before the formula is used again. The IMFC also called for early action by national authorities to make the April 2008 agreement on quota and voice reform effective.

Two countries, the Republic of Kosovo and Tuvalu, applied for membership in the IMF in FY2009. The Board of Governors adopted a membership resolution in May 2009 offering membership to the Republic of Kosovo, which became effective on June 29, 2009. Tuvalu's application remained under consideration as of the end of FY2009.

The IEO report

In May 2008, the Board discussed the Independent Evaluation Office report "Governance of the IMF: An Evaluation."[34] The report was part of an ongoing process to strengthen the IMF's governance framework and built on the approved reforms of quota and voice. It raised important questions in several key areas: how to increase clarity on the respective roles of the IMF's different governance bodies, how to ensure effective ministerial and Executive Board involvement in the institution's decision-making processes, and how to strengthen the framework of management accountability. It also offered specific recommendations for a more effective, accountable, and representative IMF. The Board and Fund management welcomed the IEO's report as a very useful contribution to their efforts to help strengthen the Fund's governance, noting that the IMF's move to undertake such an assessment placed it at the forefront of multilateral organizations, and expressed their commitment to working together to build on the discussion, with a view to developing broadly shared ideas among the membership.

The Working Group on IMF Corporate Governance

As an outcome of its May discussion, the Board formed the Working Group on IMF Corporate Governance and directed it to follow up, as a first response, on the IEO study. The working group's report, which was discussed by the Board in late September 2008, proposed a process and work plan for following up on the IEO recommendations, without prejudging decisions on the latter, and included a range of additional follow-up recommendations.[35] Executive Directors supported the work plan presented, emphasizing the need for flexibility with respect to the timing of implementation so that the recommendations of the Committee of Eminent Persons on IMF Governance Reform could be taken into consideration. They also supported the establishment of a joint Management–Board Steering Committee to monitor and coordinate the collaborative process for reforming Fund governance. Underscoring the importance of coherence among the ongoing initiatives, Executive Directors agreed on the importance of moving quickly to broaden and deepen the analysis necessary to have a productive dialogue at many different levels and hoped concrete governance reform proposals distilled from all the work being undertaken could be developed by the 2009 Annual Meetings.

The Committee of Eminent Persons on IMF Governance Reform

In September 2008, the Managing Director appointed the Committee of Eminent Persons on IMF Governance Reform, headed by South Africa's Finance Minister, Trevor Manuel, to assess the adequacy of the Fund's framework for decision making and advise on any modifications that might enable the institution to fulfill its global mandate more effectively. The committee's report, delivered to Fund management at the end of March 2009, recommended a broad package of reforms to enhance the Fund's legitimacy and effectiveness in forging coordinated responses to shared problems, echoing the IEO report in some of its recommendations.[36] It also suggested a number of complementary measures to support the Fund's ability to secure global financial stability, terming them of equal importance to the recommendations for governance reform. The report and its recommendations were discussed informally by the Board early in FY2010.

Engaging civil society and other external constituencies

In its discussion of the work plan proposed by the Working Group on IMF Corporate Governance, the Board identified civil society and other external audiences as key stakeholders in the process of governance reform, and Executive Directors met with civil society organizations in an informal seminar in September 2008 to hear their views on IMF reform based on worldwide consultations. In committing the Fund to a process of consultation with external constituencies on governance reform, the Managing Director termed that process the "fourth pillar" of such reform.

The formal Fourth Pillar effort was launched in April 2009 with the intent of providing a vehicle for civil society organizations (CSOs), academics, and others to contribute reform proposals to staff preparing papers for the Board on governance reform. It is expected to culminate in a CSO meeting on governance with the Managing Director at the 2009 Annual Meetings in Istanbul. The consultation process is being coordinated by the Washington, D.C.–based New Rules for Global Finance Coalition, which has been tasked with preparing various stages of Fourth Pillar reports and administering an independent and interactive website (www.thefourthpillar.org) through which CSOs can submit materials, engage in debates, and offer feedback.

SUPPORT FOR LOW-INCOME COUNTRIES

The IMF's work in low-income countries is an area of significant emphasis every year. However, it took on particular urgency in FY2009 in view of the hardships posed by the spike in food and fuel prices in the first half of 2008, and later, the spillover effects of the global instability in financial markets (the "third wave" of the crisis). More important, the environment in LICs has evolved considerably since the establishment of the Poverty Reduction and Growth Facility, Poverty Reduction Strategy Paper (PRSP) process, and Enhanced Heavily Indebted Poor Countries Initiatives of the 1990s. Consequently, the Board set out in FY2009 to review the nature of Fund work in LICs, articulated a mission statement in that regard (see Box 4.2), and formulated reforms to its concessional lending instruments to tailor them more closely to the needs of LICs, particularly in the context of the evolving global crisis.

Reviewing the Fund's role in low-income countries

The Executive Board reviewed the IMF's role in low-income countries in July 2008.[37] The Board noted that the Fund's work in LICs would be shaped by its broader efforts to refocus and build on close collaboration with partner institutions, promoting country ownership of development strategies and tailoring Fund advice and engagement to countries' specific characteristics. Executive Directors agreed that the main channels for the Fund's engagement would continue to be macroeconomic policy advice, capacity-building assistance, and concessional balance of payments support. They underscored the importance of effective collaboration with the international community, particularly the World Bank, especially in ensuring that the Fund's work contributes to achievement of the Millennium Development Goals. They welcomed the review of the Fund's instruments, which was at that time in the planning stages, identifying modification of the ESF as an immediate priority to make it a more effective instrument in helping LICs cope with shocks.

The ESF, available to the Fund's low-income member countries to respond to sudden and exogenous shocks beyond the control of country authorities that have a negative impact on the economy, was subsequently reviewed and reformed by the Board in September 2008 (see Box 4.1). The facility was reformed with a view to making it more useful to low-income members through increased and more rapid access and streamlined requirements (for instance, the requirement for preparation of a Poverty Reduction Strategy was dropped, though a focus remains on the impact of the shock and the related policies on the poor). Additionally, the reformed facility can be used more flexibly with other Fund facilities and instruments—for example, with a

Policy Support Instrument. Access criteria remain unchanged. Three new ESF arrangements for a total of SDR 167.2 million were approved in FY2009 after the ESF was modified. Another three disbursements were approved under the facility's new rapid-access component, totaling SDR 168.9 million (see "Financial Support" in Chapter 3 for additional details on FY2009 arrangements under the ESF).

The Executive Board's discussion of the Fund's work in low-income countries also included consideration of a proposed mission statement for the IMF's role in those countries. The agreed version of the mission statement (see Box 4.2) was presented as part of the Managing Director's statement on the Fund's role in LICs, issued in early October 2008.

Reassessing LIC financing and debt sustainability

As part of its broader consideration of the Fund's lending instruments, which culminated in the overhaul of the Fund's financing facilities (see "Putting in Place the Instruments to Meet Challenges Posed by the Crisis" in Chapter 3), the Executive Board in March 2009 discussed reforms of the Fund's lending instruments in low-income countries.[38] Executive Directors broadly agreed that the Fund should adapt its LIC toolkit to close three gaps related to provision of (1) short-term financing, (2) precautionary financing, and (3) emergency financing, noting that the PRGF's central role as the Fund's instrument for medium- and long-term engagement with LICs should be preserved.

Staff members presented several options to the Board for moving toward a simplified and more flexible toolkit that takes into account diverse country needs and heightened LIC exposure to global volatility. Most Executive Directors favored an option under which the PRGF would be maintained for protracted adjustment and financing needs, with a concessional short-term financing facility added and concessional facilities for emergency assistance unified. Executive Directors also supported allowing concessional resources to be used more flexibly.

Executive Directors recognized that the gradual erosion of PRGF access limits and norms in relation to GDP and trade could hamper the Fund's ability to assist its low-income members effectively. (Subsequently, in April 2009, the Board approved an increase in the access limits and norms for the Fund's concessional lending instruments, doubling the access limits under the PRGF; see below.) They noted that additional loan and subsidy resources would need to be mobilized (a topic that

BOX 4.1

IMF response to the food and fuel price shocks

The sharp increases in food and fuel prices in the first half of 2008 and into the third quarter prompted serious concerns about the effect on the IMF's low-income country members, many of which were hit particularly hard by the crisis. As the situation in many of these countries worsened, imperiling economic gains achieved in recent years and threatening to undo progress toward the Millennium Development Goals, the Fund moved quickly to find ways to assist members struggling with the fallout.

In September 2008, in an effort to make emergency funding available more rapidly to countries facing unanticipated financing needs, the IMF's Executive Board approved an amendment to the Fund's existing Exogenous Shocks Facility that created a rapid-access component and a high-access component, tailored conditionality and requirements for access, and increased flexibility for use. Following the reform of the facility, member countries would have access to as much as 25 percent of their quota, in the form of an outright disbursement, for each shock they encountered[1] (under the facility's rapid-access component) and as much as 75 percent of their quota under an arrangement (under its high-access component).[2] In the four months after the reform of the facility became effective, SDR 336.1 million in financial assistance was approved to six member countries facing exogenous shocks.

To address the amplified needs of the poorest member countries, already struggling under burdens of poverty before the crisis, the IMF substantially increased its concessional financing to low-income countries over the year, including to assist in dealing with the sharp increases in food and fuel prices. During FY2009, 10 new PRGF arrangements for a total of SDR 631.4 million and three new ESF arrangements for a total of SDR 167.2 million were approved. In addition, the Fund augmented access under existing PRGF arrangements for 12 countries amounting to SDR 160.6 million. Total amounts committed during FY2009 to low-income countries affected by the food and fuel price crisis amounted to SDR 1,128.0 million.

1 Access under the rapid-access component is normally available for no more than two shocks in a five-year period.

2 In April 2009, the Executive Board approved increases in the access limits on the rapid-access and high-access components of the ESF to 50 and 150 percent of quota, respectively. Access under PRGF arrangements was also doubled. Further details on the increase in ESF and PRGF access limits are provided later in this chapter.

Panelists at the conference "Changes: Successful Partnerships for Africa's Growth Challenge," Dar es Salaam, Tanzania.

BOX 4.2

The IMF's mission in low-income countries

As part of an October 2008 statement on the IMF's work in low-income countries,[1] the Managing Director presented a mission statement for the Fund's role in those countries. According to the statement, the IMF's mission in LICs is to help these countries achieve the macroeconomic and financial stability needed to raise growth and reduce poverty.

As with other members, the Fund provides its LIC members with policy advice, targeted support for capacity building, and, where appropriate, financial assistance. The Fund focuses on its core areas of expertise, namely, macroeconomic stabilization and fiscal, monetary, financial, and exchange rate policies, and on underlying institutions and closely related structural policies.

At the same time, in responding to low-income countries' particular and evolving needs, the Fund applies tailored approaches and instruments. The Fund's work is supportive of countries' own poverty reduction and development strategies, with the underlying objective being to help countries graduate to middle-income status. The Fund helps its low-income members put in place macroeconomic policies and institutions to ensure macroeconomic stability and to achieve stability in a manner that is conducive to sustained growth and poverty reduction.

Building on cross-country experiences and rigorous analysis, and taking into account countries' often limited implementation capacity, the Fund provides

1. advice on macroeconomic policies and institutions that support internal and external macroeconomic stability, including debt sustainability; foster broad-based and sustained economic growth; and enhance integration into the international trade and financial system;

2. assistance for well-sequenced reforms in building capacity and institutions for sound macroeconomic management and financial stability; and

3. concessional financial support.

Fund support for its LIC members calls for continued effective collaboration with the international community, including development institutions and donors, to ensure that the Fund's work is coordinated with the international effort to reach the Millennium Development Goals.

1 The full text of the "Statement by the IMF Managing Director on the Role of the Fund in Low-Income Countries" is available on the IMF's website at www.imf.org/external/np/omd/2008/eng/pdf/100208.pdf.

they later took up in an April 2009 discussion on options for financing the Fund's concessional lending to LICs). Executive Directors sought to proceed expeditiously with the second stage of the review, and further staff work was requested prior to Board decisions on a reformed architecture for LIC facilities.

Also part of the efforts to ensure that IMF policies and instruments remain adapted to member needs was a March 2009 examination by the Board of LIC financing patterns and their implications for debt sustainability in LICs.[39] Though the principles of the Fund's existing policy on debt limits were perceived as remaining valid, the Board observed that the ongoing financial crisis would likely affect significantly the size and composition of financing flows to LICs in the near future, and most Executive Directors felt that the diverse characteristics of LICs and the substantial change in the patterns of their financing in recent years merited a review of aspects of the Fund's debt limits policy.

Most Executive Directors supported staff proposals to move away from a single design for concessionality requirements toward a menu of options to reflect better the diversity of situations, in particular with regard to the extent of debt vulnerabilities and macroeconomic and public financial management capacity. The existing practice could continue to be applied to lower-capacity countries, but with more flexibility for those with lower debt vulnerabilities. More flexible options, eschewing the debt-by-debt approach of the existing policy, could be considered for higher-capacity countries. For more advanced LICs, consideration could be given to dropping concessionality requirements.

Executive Directors generally agreed that debt sustainability analyses provided an appropriate basis for assessing debt vulnerabilities and encouraged further work on the analytical underpinnings of the debt sustainability analysis and the methodology for assessing management capacity. Follow-up work by staff was requested to elaborate on the approach discussed at the meeting and propose new guidelines on debt limits.

Following the March discussion of reforms of the Fund's lending instruments in low-income countries, in April the Board considered a proposal to increase access limits and norms and approved a doubling of the access limits for loans under the PRGF and the ESF. The maximum and exceptional access limits for the PRGF were increased from 140 and 185 percent of quota to 280 and 370 percent of quota, respectively, and the access limits on the rapid-access component and the high-access component of the ESF were raised from 25 and 75 percent of quota to, respectively, 50 and 150 percent of quota. The Board considered that the increases would be consistent with the increased access levels for GRA resources, would give the Fund greater flexibility to assist low-income countries, and would reduce the risk that LICs would resort to nonconcessional financing that could exacerbate debt vulnerabilities.

In March 2009, the Board discussed a joint World Bank–IMF paper reporting on progress achieved in strengthening public debt management capacity in developing countries, including through the development of the Debt Management Performance Assessment framework and a Medium-Term Debt Management Strategy framework. The Board endorsed the new frameworks and encouraged their application to help low- and middle-income countries implement effective debt management practices.

Policy Support Instrument

Even when low-income countries have made significant progress toward economic stability and no longer require IMF financial assistance, they may still seek ongoing IMF advice, closer monitoring, and endorsement of their economic policies—what is referred to as policy support and signaling. The IMF's Policy Support Instrument (PSI), introduced in October 2005, enables the Fund to support such countries, helping them to design effective economic programs that, once endorsed by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of their policies. PSIs are available, upon request, to all PRGF-eligible members with a Poverty Reduction Strategy in place, and programs under the PSI are expected to meet the same high standards as those under Fund financial arrangements.

To date, the Executive Board has approved PSIs for six members (Cape Verde, Mozambique, Nigeria, Senegal, Tanzania, and Uganda). Other member countries have also expressed interest. There were no new formal requests for PSIs in FY2009.

Revision of policies on Joint Staff Advisory Notes

In order to be considered for support under the IMF's Poverty Reduction and Growth Facility, governments, with the active participation of civil society and other development partners, prepare comprehensive, country-owned Poverty Reduction Strategy Papers (PRSPs) that are then considered by the Executive Boards of the IMF and World Bank as the basis for concessional lending and debt relief from each institution. Countries must also complete an annual progress report on the PRSP as a condition for continued support. In response to PRSPs and annual progress reports that are submitted, the staffs of the Bank and Fund prepare Joint Staff Advisory Notes (JSANs) assessing the strengths and weaknesses of the member's Poverty Reduction Strategy as outlined in the PRSP and identifying priority areas for strengthening the strategy during implementation; these JSANs are reviewed along with the PRSP or interim PRSP submitted by the country.

As part of efforts to streamline modalities for Fund and Bank review of member countries' Poverty Reduction Strategies, the Boards of the World Bank and the IMF reassessed the current arrangements for such review, which were initiated in 2005 to increase the focus on improving underlying country processes rather than on producing documents. To address several remaining concerns relating to the nature of the feedback process and to the perception of high processing costs—for both client countries and Bank and Fund staff—associated with current modalities, the Boards of the two organizations decided early in FY2009 to retain JSANs for full and interim PRSPs but to eliminate them for annual progress reports under the PRGF.

JSANs are to be issued to the Boards within four months from publication of the corresponding PRSP. Advice on Poverty Reduction Strategy implementation is now provided through a regular annual feedback process.

Outreach in low-income countries

The IMF's Executive Board and management place a high priority on outreach activities, particularly those involving LICs, and a variety of outreach activities are conducted, aimed at legislators, civil society organizations, and the general public. The most notable such effort in FY2009 was a March 2009 conference in Tanzania, cosponsored by the IMF and Tanzania (see Box 4.3).

Financial support

The Fund provided additional financial support to LICs in FY2009 in response to higher food and fuel costs and enhanced its ability to respond flexibly to such external shocks (see Box 4.1). A significant number of low-income countries benefited from Fund financing to help deal with balance of payments pressures mainly from higher food and fuel prices. Additionally, Fund financing to low-income countries increased substantially in the second half of FY2009. Twelve countries received SDR 160.6 million in additional assistance under existing lending programs supported by the Poverty Reduction and Growth Facility during the year. Ten new PRGF arrangements were approved, providing access of SDR 631.4 million. Other countries received financial support through the Fund's emergency assistance to help cope with the impact of natural disasters. Emergency Post-Conflict Assistance (EPCA) was approved in FY2009 for Guinea-Bissau (SDR 1.8 million) and the Comoros (SDR 1.1 million), and support under Emergency Natural Disaster Assistance (ENDA) was approved for Belize (SDR 4.7 million).

BOX 4.3

Changes: Successful Partnerships for Africa's Growth Challenge

In mid-March 2009, the IMF cosponsored with Tanzania a conference, "Changes: Successful Partnerships for Africa's Growth Challenge," in Dar es Salaam.[1] The conference aimed to address key policy questions, with the common goal of forging a renewed partnership for growth in Africa in the twenty-first century.

More than 300 participants attended the conference's plenary session. Tanzania's President, Jakaya Kikwete, and IMF Managing Director Dominique Strauss-Kahn made opening remarks, and keynote addresses were delivered by former UN Secretary-General Kofi Annan and UN Deputy Secretary-General Asha-Rose Migiro.

The conference proved to be a ground-breaking opportunity for strengthening the IMF's relationships with its African member countries, and conference participants called for the Managing Director to be a voice for Africa at the upcoming meeting of G-20 leaders in April. Conference participants also agreed on six building blocks of a strengthened partnership between Africa and the Fund:

- enhancing IMF surveillance over the policies of all its members, in a spirit of evenhandedness;
- expanding the IMF's financing facilities and their accessibility to low-income countries;
- consolidating the debt relief process by adjusting the IMF's debt sustainability framework to accommodate Africa's new financing needs and opportunities;
- accelerating reforms of IMF governance to enhance Africa's voice and representation at all levels of the institution;
- enhancing the policy dialogue between the IMF and its African members, including through technical assistance, to ensure that African countries' policies benefit from the IMF's experience and expertise; and
- reinforcing the IMF's catalytic role to leverage public and private financing for Africa's critical infrastructure needs.

The Managing Director stressed the IMF's determination to increase financing for Africa and, more important, the G-20 leaders subsequently committed to assisting the IMF in this effort (see "Making Sure the Fund Has Adequate Resources to Meet the Crisis" in Chapter 3). African members welcomed the IMF's decision to open two new regional technical assistance centers in Africa (see "Technical Assistance") in addition to expanding the existing three, which will provide enhanced assistance to Africa, while strengthening its timeliness and ownership.

1 For additional information on the Tanzania conference, see IMF Survey articles on the topic from March 2009, available at www.imf.org/external/pubs/ft/survey/so/home.aspx, or visit the conference website at www.changes-challenges.org/.

As noted earlier in the chapter, the IMF reformed the Exogenous Shocks Facility in September 2008 to make it more useful to low-income members through increased and more rapid access and streamlined requirements (see also Box 4.1). Since the facility was modified, six countries have received ESF financing totaling SDR 336.1 million. (See Chapter 3 for a fuller discussion of lending under PRGF, ESF, EPCA, and ENDA in FY2009.)

Poverty reduction and debt relief

The IMF participates, along with other multilateral institutions, in two special initiatives aimed at debt relief for the world's poorest countries. The HIPC Initiative, launched in 1996 by the IMF and World Bank, is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF- and World Bank–supported adjustment and reform programs, with the aim of ensuring that no poor country faces a debt burden it cannot manage. To receive assistance, eligible countries must establish a track record of reform and sound policies in tandem with programs supported by the IMF and the World Bank's International Development Association (IDA) and must develop a Poverty Reduction Strategy Paper through a broad-based participatory process.

Once a country has met or made sufficient progress in meeting these criteria, the Executive Boards of the IMF and IDA formally decide on its eligibility for debt relief, and the international community commits to reducing debt to the agreed sustainability threshold (the "decision point"); the country may immediately begin receiving "interim relief" on its debt service falling due. To receive the full and irrevocable reduction in debt principal available under the HIPC Initiative, however, the country must (1) establish a further track record of good performance under IMF- and IDA-supported programs, (2) implement satisfactorily key reforms agreed at the decision point, and (3) adopt and implement the PRSP for at least one year. Once a country has met these criteria, it can reach its "completion point," at which time lenders are expected to provide the full debt relief committed to at decision point.

To date, debt reduction packages under the HIPC Initiative have been approved for 35 countries, 29 of them in Africa, providing US$51 billion (in end-2007 net present value terms) in debt service relief over time. Six additional countries are potentially eligible for HIPC Initiative assistance. In FY2009, two countries, Côte d'Ivoire and Togo, reached the decision point under the initiative, and one country, Burundi, reached the completion point.

In 2005, to help accelerate progress toward the United Nations Millennium Development Goals, the HIPC Initiative was supplemented with the MDRI, which allows 100 percent relief on eligible debts from three multilateral institutions—the IMF, the IDA, and the African Development Fund—for countries completing the HIPC Initiative process. In 2007, the Inter-American Development Bank also decided to provide additional debt relief to the five HIPCs in the Western Hemisphere.

All countries that reach the completion point under the enhanced HIPC Initiative, and those with per capita income below US$380 and outstanding debt to the Fund at end-2004, are eligible for the MDRI. For a country to qualify for the relief under the initiative, the IMF Executive Board requires that the country be current on its obligations to the IMF and demonstrate satisfactory performance in the areas of (1) macroeconomic policies, (2) implementation of a Poverty Reduction Strategy, and (3) public expenditure management. An initial group of 19 countries (17 HIPCs that had reached the completion point and two non-HIPC countries with per capita income below the established threshold) qualified for and benefited from MDRI relief in January 2006. In all, 26 countries have qualified for and received MDRI relief from the Fund, including, most recently, Burundi in January 2009 (see Web Table 4.3).

Chapter 3 provides additional details on Fund support to member countries under the HIPC Initiative and MDRI in FY2009. A September 2008 policy paper provided a status report on implementation of the HIPC Initiative and MDRI.[40]

CAPACITY BUILDING

Capacity building, comprising training and technical assistance, is a core area of Fund work. In FY2009, broad reforms were pursued to enhance its effectiveness and efficiency. The reforms emphasize better prioritization and cost effectiveness, enhanced performance measurement, and stronger partnership with donors. As part of this effort, the Executive Board endorsed a new policy for charging for capacity-building services and a major fundraising drive, as well as plans for opening new regional technical assistance centers.

Technical assistance

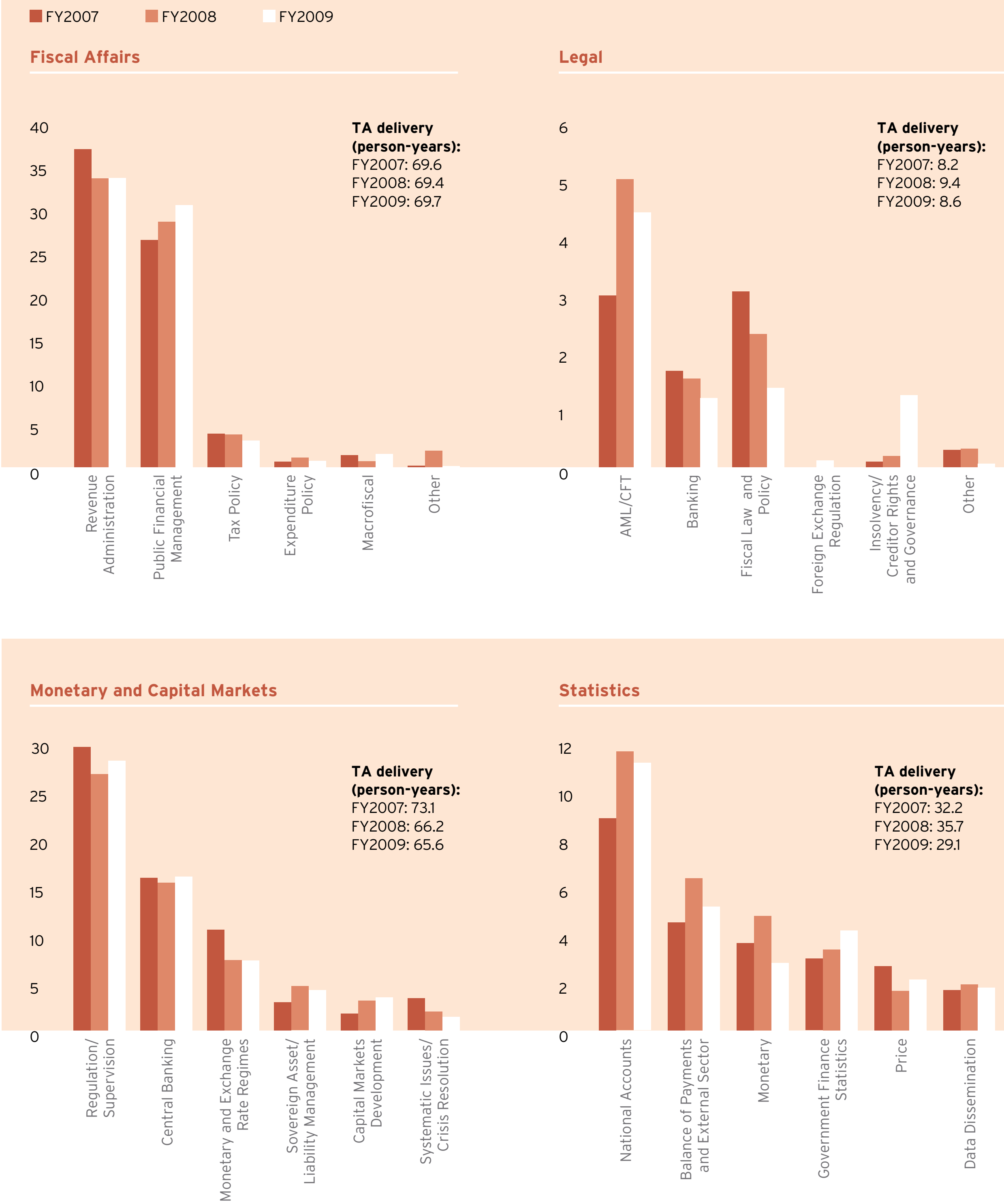
The IMF provides technical assistance (TA) in areas of its core expertise: macroeconomic policy, tax policy and revenue administration, expenditure management, monetary policy, the exchange rate system, financial sector stability, legislative frameworks, and macroeconomic and financial statistics (Figure 4.1). In addition to the immediate benefit to recipient countries, TA contributes to a more robust and stable global economy. About 80 percent of Fund TA goes to low- and lower-middle-income countries, particularly in sub-Saharan Africa and Asia (Figure 4.2).

In May 2008, the Board discussed reforms to enhance the impact of IMF TA and adapt the Fund's provision of TA in light of the strategic directions in the Fund's medium-term budget.[41] Executive Directors considered that, if implemented, the reforms should go a considerable way toward enhancing the effectiveness of Fund TA.

Executive Directors supported a more proactive approach to mobilizing new resources for TA, and most welcomed the bundling of TA into topical trust funds and an expansion of TA delivery through regional technical assistance centers (see below). Box 4.4 discusses key pillars of the new framework for TA delivery.

FIGURE 4.1

TA delivery by departments and topics (In person-years)

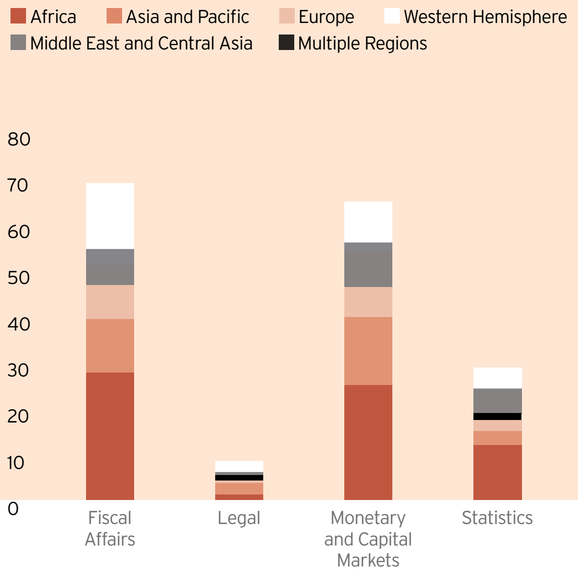


Source: IMF Office of Technical Assistance Management.

FIGURE 4.2

TA delivery during FY2009 by department and region

(In person-years)

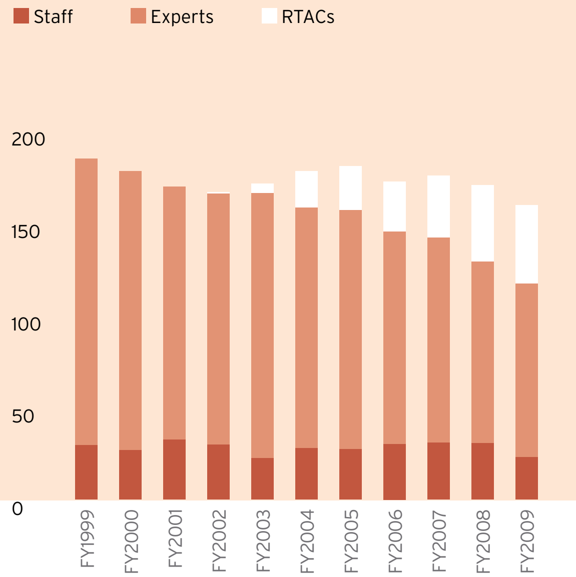


Source: IMF Office of Technical Assistance Management.

FIGURE 4.3

Distribution of TA delivery: Staff, experts, and RTACs

(In person-years)



Note: Data do not include INS- or UNDP-financed projects.
Source: IMF Office of Technical Assistance Management.

BOX 4.4

Refocusing the Fund's technical assistance

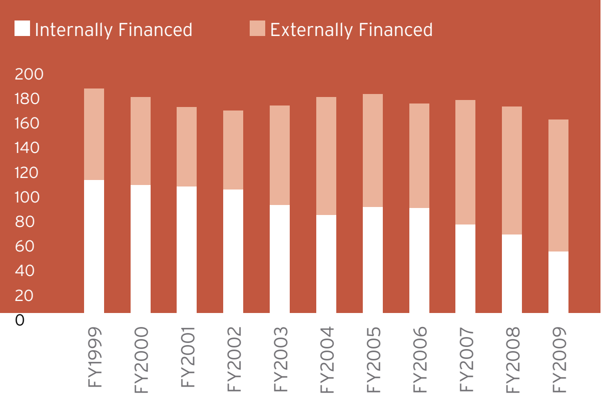
Broad reforms were pursued in FY2009 to enhance the effectiveness and efficiency of IMF TA, in accordance with the reforms endorsed by the Board in its May 2008 discussion. These reforms are based on three pillars:

- *Better integration of TA with surveillance and lending operations.* Under the new framework, area departments assume the lead role in setting TA strategies (Regional Strategic Notes), which provide a holistic medium-term TA framework that is better aligned with members' needs and flexible enough to respond to shifts in priorities.

- *Enhancing performance measurement and cost-effectiveness.* The new framework systematically tracks the achievement of objectives and deliverables and costs in each TA project using indicators defined in advance by project managers, making it possible to measure success in each project.

- *Strengthening partnership with donors.* The Fund is seeking to strengthen further its partnership with donors, which has grown steadily since the late 1990s (see figure), not only to deepen existing partnerships, but also to broaden the base to new donors. For instance, a TA partnership agreement with the European Commission (EC) was signed in January 2009.

TA delivery by financing source, FY1999–FY2009 (In person-years)



Source: IMF Office of Technical Assistance Management.

Executive Directors approved a new policy for charging for the Fund's TA and training in August 2008.[42] The strengthened policy applies to Fund-provided TA and training of officials provided at IMF headquarters, with the amount that countries have to pay being graduated according to the country's per capita income.[43] The fee basis is meant to serve as a price mechanism that helps ensure that the supply of TA and training is responsive to the needs of recipients and in line with their priorities. A number of exemptions, together with the graduated pay scale, ensure that the policy does not adversely affect TA delivery to low-income members. In March 2009, the Fund's management, after consultation with the Board, decided to make the charging policy for TA effective on January 1, 2010, rather than May 1, 2009, as originally scheduled. Charging for training commenced on May 1, 2009, as planned.

The Fund has increasingly been delivering its TA through the regional technical assistance centers (RTACs) (Figure 4.3), widely considered to be successful models for capacity building. External evaluations and feedback from country authorities have found TA delivered through RTACs to be flexible, timely, cost-effective, and more country-owned (see Box 4.5). Executive Directors affirmed their support for the increased role for RTACs in the delivery of the Fund's capacity building in a May 2008 seminar (see "Training").

Seeking to scale up the regional approach, the Fund announced, in September 2008, plans to open four new RTACs. The first of these, the Central America, Panama, and the Dominican Republic Technical Assistance Center (CAPTAC-DR), opened in early FY2010 (Table 4.1). Of the other three RTACs that are expected to open, two are in southern and west Africa; together with the existing RTACs in Africa, they will cover all of sub-Saharan Africa. The fourth will serve the countries of Central Asia. The existing and new RTACs will provide TA services to a total of 102 countries, covering more than 80 percent of the low-income world.

In addition, the Fund announced, in early April 2009, the launching of the topical trust funds (TTFs) initiative (see Box 4.6). The idea behind TTFs is to pool donor resources to serve member countries in niche, specialized macroeconomic topics complementing the work of the RTACs.

Training

Training for member country officials, an integral part of the IMF's capacity-building efforts, enhances their ability to analyze economic developments and formulate and implement effective macroeconomic policies. Courses and seminars are designed to share the expertise of IMF staff on a wide array of topics that are critical to effective macroeconomic and financial analysis and policymaking, as well as more specialized topics relating to the compilation of macroeconomic statistics and various fiscal, monetary, and legal issues. Most of the training is provided by a program organized by the IMF Institute, which delivers (in collaboration with other departments) and administers courses at IMF headquarters, through a network of seven regional training centers around the world, in collaboration with various other regional and national training providers, and through distance learning.

Overall, the Institute's program delivered 270 weeks of training courses in FY2009, an 11 percent decline from FY2008 (Table 4.2). Almost 4,000 participants benefited from this training for a total of 8,500 participant-weeks of training. The decline in training was more than is envisaged over the medium term, owing to short-term staffing issues and a particularly large training cut by the IMF's

TABLE 4.1
Existing and planned RTACs

CENTER NAME	LOCATION	YEAR ESTABLISHED	NUMBER OF COUNTRIES SERVED	PERCENTAGE OF LOW-INCOME COUNTRIES IN MEMBERSHIP
PFTAC	Suva, Fiji	1992	15	13
CARTAC	Bridgetown, Barbados	2001	20	5
METAC	Beirut, Lebanon	2004	10	20
East AFRITAC	Dar es Salaam, Tanzania	2002	7	100
West AFRITAC	Bamako, Mali	2003	10	100
Central AFRITAC	Libreville, Gabon	2007	7	57
CAPTAC-DR	Guatemala City, Guatemala	2009	7	0
South AFRITAC			13	38
West AFRITAC 2			6	83
CASTAC			7	43

Source: IMF Office of Technical Assistance Management.

BOX 4.5
External evaluation of the AFRITACs: A success story

An external evaluation of the Central, East, and West Africa Technical Assistance Centers (AFRITACs) rated the performance of all three AFRITACs as good (see table), despite the challenging environment for TA implementation created by the low institutional absorptive capacity of many AFRITAC members. The exercise evaluated TA projects, on a scale of 1 (poor) to 4 (excellent), in five functional areas (public finance management, revenue administration, monetary operations, banking supervision, and statistics) along four dimensions (relevance, effectiveness, efficiency, and sustainability).

Among other findings, the evaluation team noted that AFRITACs provide rapid and flexible services, with all TA delivery modes effective; the high quality of the expertise in AFRITACs has enhanced the IMF's reputation; AFRITAC TA is responsive to countries' needs ("close to the countries"), and the involvement of recipient countries, donors, and IMF staff in the AFRITAC governance structure has proven to be a successful model; AFRITACs support countries' Poverty Reduction Strategies and Programs; and some AFRITAC TA has improved transparency, accountability and control, thus contributing to the reduction of opportunities for corruption.

Respondents to the survey also rated the AFRITACs as better than other TA providers in terms of responsiveness, knowledge of the countries, flexibility, reaction times, cost effectiveness, and use of African expertise.

	EAST AFRITAC	WEST AFRITAC	CENTRAL AFRITAC
Relevance	3.3	3.2	3.0
Effectiveness	3.1	2.0	2.7
Efficiency	3.0	2.8	2.9
Sustainability	2.9	2.7	2.7

BOX 4.6

Topical trust funds: What are they? What are their objectives?

To better serve its member countries, particularly developing countries, the IMF is initiating a number of topical trust funds to support specialized global TA that incorporates international best practice and creates synergies with the IMF's hands-on-oriented regional centers:

- *The Anti–Money Laundering/Combating the Financing of Terrorism (AML/CFT) TTF* will support TA to assist in developing a robust AML/CFT regime in member countries.

- *The Fiscal Management TTF* will support TA to enhance developing countries' capacity to implement sound fiscal and budgetary policies and manage and monitor public expenditure.

- *The Tax Policy and Administration TTF* will finance TA to support countries in the establishment of sound tax policy frameworks and well-drafted tax laws and build effective revenue agencies to administer these policies.

- *The Sustainable Debt Strategy TTF* will finance TA to numerous developing and emerging market countries by putting in place the analytical, risk management, and strategic capacity to manage public debt sustainably.

- *The Financial Stability TTF,* drawing on the lessons from the 2008 global financial crisis, intends to assist member countries in surveillance and regulation of systemic risks, developing mechanisms for effective cross-border supervision, designing financial safety nets, managing liquidity during crisis, and devising exit strategies to a stable financial system.

- *The Financial Crisis Statistics TTF* will support TA to build statistical and analytical capacity to monitor financial vulnerabilities in emerging market countries.

- *The Managing Natural Resource Wealth TTF* will address needs specific to resource-rich countries in macroeconomic management, fiscal regime and related contracts, revenue administration, transparency arrangements, statistics, and asset and liability management.

- *The Training in Africa TTF* aims to strengthen the macroeconomic management skills of mid- and high-level government officials, through a practical training program that blends lectures and hands-on workshops.

- *The General Data Dissemination System TTF* will scale up TA to help countries build robust statistical systems to compile and disseminate data anchored on the GDDS.

The first of the TTFs, the AML/CFT TTF, became operational in May 2009, while the remainder are expected to begin operations over the next few years. TTF donors will be engaged through steering committees, and independent external evaluations will ensure effective delivery and dynamism.

TABLE 4.2
IMF Institute training programs, FY2007–FY2009

	FY2007	FY2008	FY2009
HEADQUARTERS			
Course-Weeks	87	78	54
Participant-Weeks	3,182	2,813	1,974
REGIONAL TRAINING CENTERS			
Course-Weeks	152	172	158
Participant-Weeks	4,586	5,280	4,737
OTHER OVERSEAS TRAINING			
Course-Weeks	33	35	42
Participant-Weeks	983	1,071	1,211
DISTANCE LEARNING			
Course-Weeks	16	18	16
Participant-Weeks	657	675	570
TOTAL			
Course-Weeks	288	303	270
Participant-Weeks	9,406	9,838	8,491

Source: IMF Institute.

technical assistance departments, resulting from increased demand facing these departments in other priority areas. As envisaged in the Institute's medium-term training plan, most of the decline in training was at headquarters, though the volume of training delivered elsewhere, including at regional training centers, also diminished.

Curriculum development pays close attention to Fund priorities and the evolving needs of member countries, including in recent years to macrofinancial linkages. For example, in FY2009, a new course on Mortgage Markets, Securitization, and Structured Finance was delivered, and a new course on Finance for Macroeconomists was developed, with the first delivery early in FY2010.

In May 2008, Executive Directors held a seminar on training as part of capacity building in which they stressed the importance of keeping the Fund's training program focused on areas in which the Fund has a comparative advantage.[44] They supported the increased role of regional training centers and RTACs in the delivery of IMF training, considering decentralization of training as cost-effective and as providing added flexibility in responding to rapidly evolving needs and requests for training at the country or regional level.

BUDGET AND INCOME REFORM

In April 2008, the Executive Board reached agreement on a new income and expenditure framework that is expected to put the IMF's finances on a sounder footing. On the expenditure side, the Board identified approximately US$100 million in savings to be achieved in FY2009–11 through reductions in both staff and nonstaff costs. On the income side, the Board approved measures that would broaden the Fund's income sources.

Regarding income reform, the Fund's Board of Governors approved an amendment to the Articles of Agreement to expand the Fund's investment authority. Another key element in the Fund's new income model includes establishment of an endowment funded by profits from gold sales. The proposed amendment to the Articles of Agreement must be accepted by at least three-fifths of members representing 85 percent of total voting power in order to take effect. In a number of cases, approval by member countries' legislatures will be required.

Implementation of the expenditure reform elements of the package is proceeding as planned. Among the measures taken in FY2009, in the context of the Fund's general downsizing, were reforms and downsizing of budgets for Offices of Executive

Directors and of the IEO budget, and approval by the Board of Governors of a reduction in the reimbursement of Governors' expenses for attending Board of Governors meetings (amendment of Section 14(a) of the By-Laws).

The budget reform for Offices of Executive Directors (OEDs) involved, among other things, a new system of dollar budgeting for those offices, within a new expenditure framework. In the context of developing proposals for the allocation of the FY2009 travel budget to individual OEDs, the Committee on Executive Board Administrative Matters (CAM) agreed to consider rules for a new system of dollar budgeting for OEDs, consistent with earlier recommendations of the Working Group on Streamlining the Expenditures of Offices of Executive Directors. Accordingly, the CAM developed a comprehensive set of recommendations for a new expenditure framework for OEDs, which were intended to provide Executive Directors with an appropriate degree of flexibility in managing their budgetary allocations within and between years to meet changing needs, while ensuring appropriate and transparent accountability for the use of Fund and member country resources. The Executive Board approved the new framework in December 2008.

The next phase of Fund budget reform will focus on, among other things, better costing of outputs to facilitate tighter budget management and better mapping of resources to priority outputs.