CHAPTER
10

Financial Operations and Policies

Chief among the financial highlights of 1998/99 was the increase in IMF quotas under the Eleventh General Review of Quotas, which took effect on January 22, 1999. As of the end of 1998/99, total IMF paid-in quotas reached SDR 208 billion ($281 billion). Prior to the quota increase, the IMF's liquidity had fallen to a low level, and the IMF had resorted to borrowing under the General Arrangements to Borrow and the recently established New Arrangements to Borrow. These borrowings were repaid following the quota increase, and by the end of the financial year the IMF's liquidity ratio had risen to 89 percent.

During the financial year, the IMF approved commitments under Stand-By Arrangements totaling SDR 14.3 billion ($19.3 billion), and under Extended Arrangements totaling SDR 14.1 billion ($19.1 billion). In addition, the IMF made SDR 2.6 billion ($3.5 billion) available to four member countries under the Compensatory and Contingency Financing Facility. Under its Enhanced Structural Adjustment Facility for low-income countries, the IMF approved 10 new arrangements with commitments totaling SDR 0.9 billion ($1.2 billion), and it augmented 6 ESAF Arrangements by a total of SDR 0.1 billion ($0.1 billion). Members' purchases (i.e., borrowings) from the General Resources Account (GRA) in the credit tranches were a record SDR 21.4 billion ($28.9 billion) in 1998/99, and an additional SDR 0.8 billion ($1.1 billion) was borrowed by low-income countries under the ESAF. Taking into account both purchases and repurchases (i.e., repayments), IMF credit outstanding in the GRA reached a record SDR 60.7 billion ($82.0 billion) at the end of 1998/99. Including also SAF and ESAF loans outstanding, total IMF credit outstanding increased to SDR 67.2 billion ($90.8 billion) on April 30, 1999, from SDR 56.0 billion ($75.4 billion) a year earlier.

The IMF earned a net income of SDR 436 million ($589 million) in 1998/99; this amount was placed to the IMF's reserves, increasing them to SDR 2.6 billion ($3.5 billion) as of year-end. Although no new cases of protracted arrears to the IMF emerged in 1998/99, overdue obligations increased slightly, to SDR 2.30 billion ($3.11 billion).

With the introduction of the euro on January 1, 1999, the IMF replaced the deutsche mark and French franc in the SDR valuation basket with equivalent amounts of euro. The volume of SDR transactions reached an unprecedented SDR 49.1 billion ($66.3 billion) in 1998/99, boosted in particular by flows associated with the quota increase under the Eleventh General Review.

In the fall of 1998, responding to the increased public interest in the IMF's financial position and to the desire of member countries for enhanced operational transparency, the Executive Board decided to release data on members' financial positions in the IMF and on the institution's overall financial resources and liquidity position (see Box 14).

Membership and Quotas

During 1998/99, the IMF's membership remained at 182 countries. The Federal Republic of Yugoslavia (Serbia/Montenegro) has not completed arrangements for succession to IMF membership. The Executive Board decided on December 11, 1998, that the country had until June 14, 1999, to complete such arrangements; on June 4, 1999, this period was extended until December 14, 1999.

Under the Eleventh General Review of Quotas, an increase in total IMF quotas to SDR 212 billion from SDR 146 billion was approved by the Board of Governors (Resolution No. 53-2) on January 30, 1998. The Resolution included a participation requirement providing that no increase in quotas would become effective until members with not less than 85 percent of total quotas on December 23, 1997, had consented to the increases in their quotas. As of January 21, 1999, the IMF had received valid consents from 114 members to the increases in their quotas under the Eleventh Review, accounting for 85.09 percent of the total quotas on December 23, 1997. Accordingly, on January 22, 1999, the Board determined that the participation requirement for the quota increase to come into

Box 14
IMF Publishes Information on Its Financial and Liquidity Position and on Members' Accounts

Since October 1998, information about members' financial positions in the IMF has been made available on the IMF's website (http://www.imf.org). The site provides the latest end-of-month information on members' use of IMF credit; disbursements to and repayments of IMF credit by members; the current status of Stand-By, Extended, and ESAF Arrangements; and summary financial position reports. This consolidates data published in the IMF's *Annual Report,* its quarterly Financial Statements, the *IMF Survey,* and *International Financial Statistics.*

The website also provides the latest end-of-month information on the IMF's total resource position and its usable resources, as well as on the ratio of net uncommitted usable resources to liquid liabilities—the IMF's "liquidity ratio." Notes contain detailed explanations of the individual items.

effect had been fulfilled. Members that had not yet consented had until January 29, 1999, to consent to their individual quota increases. Members with overdue obligations to the General Resources Account may not consent to the proposed increases in their quotas until they become current in these obligations. On February 1, 1999, the Board extended the period of consent to the increases in quotas to July 30, 1999. The Board also agreed to review the situation shortly before the end of the extended consent period. It was understood that during this period, Directors would follow up on the process of consent in the countries in their constituencies that had not yet consented to their quota increases. As of April 30, 1999, 157 members, accounting for 95.86 percent of total quotas on December 23, 1997, had consented, while 25 members, accounting for 4.14 percent of the total, had not yet indicated their consent.

An individual member's quota increase becomes effective when the member has notified the IMF of its consent and has paid the increase in its quota in full. Under the Resolution for the Eleventh Review, each member was to pay the IMF for the increase in its quota within 30 days after its consent or the date of the effectiveness of the Eleventh Review quota increase, whichever was later, with the proviso that the Board could extend the payment period as it might determine. Members were required to pay 25 percent of their quota increases in SDRs or currencies specified by the IMF, or in a combination of SDRs and currencies. The balances of the increases were payable in their own currencies. The IMF has assisted members lacking sufficient reserves to make their reserve asset payments by arranging for them to borrow SDRs from other members. (Similar arrangements were made at the time of the Ninth General Review.) Under these arrangements, a member borrowing SDRs repays the loan on the same day by drawing on its reserve tranche position established by the payment of the quota increase. No interest, fee, or commission is charged for the use of this mechanism by either the IMF or the lenders. In 1998/99, 86 members borrowed SDR 2.2 billion from 5 other members under this mechanism.

By April 30, 1999, 156 members had completed the payments for their quota increases. With these payments, total quotas in the IMF reached SDR 207.98 billion. Reserve asset payments made in SDRs were SDR 6.4 billion, and payments made in the currencies of other members specified by the IMF were SDR 7.0 billion. The reserve asset portion of their quota increases was paid in SDRs by 126 members, in foreign currencies by 24 members, and in a combination of SDRs and foreign currencies by 6 members. One member had consented to but not yet paid its quota increase. Individual members' quotas in the IMF at the end of April 1998 and April 1999, and the effective dates of the payment of their quota increases, are shown in Appendix II, Table 15.

IMF Liquidity and Borrowing

In the aftermath of the financial crisis that began in Asia in 1997, heavy demand for the use of IMF resources continued in 1998/99, heightened by the emergence of crises in Russia in mid-1998 and in Brazil in December 1998. During December 1998, the IMF's liquidity ratio fell to below 30 percent, about the minimum needed for the IMF to maintain operational maneuverability. Prior to the quota increase under the Eleventh General Review—which took effect on January 22, 1999—the IMF had to resort to borrowing: first, under the GAB in July 1998, in connection with the augmentation of the Extended Arrangement for Russia, and subsequently, under the NAB in December 1998, in connection with the Stand-By Arrangement for Brazil. Following the quota increase, the IMF repaid the amounts borrowed under both the GAB and the NAB. Total purchases in 1998/99 under arrangements and special facilities rose to SDR 21.4 billion. Net of repurchases (including SDR 4.5 billion under the Supplemental Reserve Facility (SRF) by Korea), IMF credit outstanding in the GRA increased by SDR 11.0 billion to SDR 60.7 billion at the end of 1998/99, a new high for the second year in a row.

General Resources

The IMF's liquid resources consist of usable currencies and SDRs held in the GRA. Usable currencies, the

Box 15
Operational Budget

The quarterly operational budget is the mechanism through which the IMF makes its resources available to members. Reflecting the cooperative character of the IMF and the revolving nature of its resources, the IMF's financial assistance is provided by using SDRs and the currencies of a wide range of members, large and small, including advanced, developing, and transition economies. Members whose balance of payments and reserve positions are judged by the IMF to be sufficiently strong for their currencies to be included in the operational budget make foreign exchange available to members with weak balance of payments positions in need of external financing. In return for the use of their currencies, members receive a liquid claim on the IMF, which earns a market-related rate of return.

Guidelines underlying the preparation and implementation of the operational budget are established by the Executive Board. In November 1998, the Board reviewed the guidelines governing the allocation of currencies to be used in *transfers* (purchases) and *receipts* (repurchases) under the operational budget.

At the conclusion of that review, the Board decided to change the allocative key from gross international reserves to IMF quotas. International reserves had played a central role in the allocation system since the 1960s, reflecting the fact that transactions effected through the operational budget involve an exchange of reserve assets. With the sharp expansion of IMF credit over the previous 18 months, the reserve-based system had come under strain, leading to wide differences in the contributions of members to the financing of IMF operations. In agreeing on the move to a quota-based system, the Board was guided by the need for an objective and uniform cross-country allocative criterion. For a number of reasons, international reserves could no longer meet this need:

- changes in the pattern of reserve holdings among members had accentuated differences between the measure determining members' contributions to the financing of the IMF (international reserves) and the measure of their quantifiable rights and obligations in the IMF (quotas);
- recent work on data standards had revealed sharp differences in the measurement, reporting, and usability of gross international reserves; and
- the imminent introduction of the euro—which affected the level of reserves of some of the major contributors to the operational budget—made modifying the allocation system a matter of operational necessity.

In light of these considerations, the basis for allocating currencies for transfers was changed from gross international reserves to quotas and the basis for allocating currencies for receipts was changed from reserve tranche positions to the ratio of members' positions in the IMF to their quotas. The latter change was intended to facilitate "harmonization," that is, to bring the ratio of each member's position in the IMF to its quota close to the average ratio for all members included in the operational budget. The use of the new guidelines rapidly led to a significant convergence of members' positions in the IMF relative to quota, facilitated by the receipt of the bulk of payments for members' quota increases under the Eleventh General Review in early 1999.

largest component of liquid resources, are holdings of currencies of members whose balance of payments and reserve positions are considered sufficiently strong to warrant the inclusion of their currencies in the quarterly operational budget for use in financing IMF operations and transactions (see Box 15). The IMF's usable resources increased sharply toward the end of the financial year as a result of quota payments amounting to SDR 46.0 billion in usable currencies and SDRs. Also, the inclusion of three additional members in the list of sufficiently strong countries during 1998/99 added SDR 1.7 billion to usable resources. The net effect was that, even though purchases exceeded repurchases during the year by SDR 11.0 billion, the IMF's *usable resources* increased to SDR 83.7 billion at the end of April 1999 from SDR 47.3 billion a year earlier.

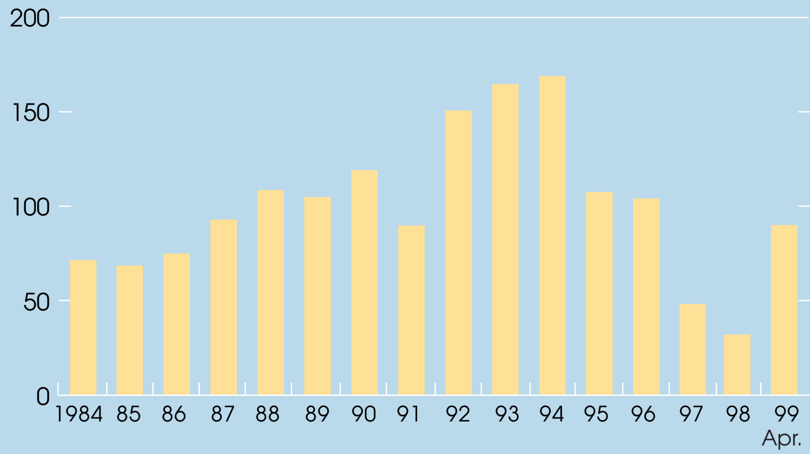
The stock of *uncommitted usable resources*—that is, usable resources less resources committed under current arrangements and considered likely to be drawn—more than doubled to SDR 70.6 billion at the end of April 1999 from SDR 32.0 billion a year earlier. The IMF's *net uncommitted usable resources* (adjusted to reflect the need to maintain adequate working balances of usable currencies) amounted to SDR 56.7 billion as of April 30, 1999, compared with SDR 22.6 billion a year earlier.

The IMF's liquid liabilities at the end of April 1999 totaled SDR 63.6 billion—consisting entirely of reserve tranche positions (as all borrowing undertaken during the year had been repaid)—compared with SDR 50.3 billion a year earlier. The ratio of the IMF's net uncommitted usable resources to its liquid liabilities—the "liquidity ratio"—increased to 89.2 percent at the end of April 1999 (Figure 5) from 44.8 percent a year earlier.

Borrowing

The IMF is a quota-based institution, meaning that it is financed primarily from its members' quota subscriptions. The IMF's Articles of Agreement authorize it to borrow if necessary to supplement those resources. To date, the IMF has borrowed only from official sources (such as governments and central banks), but it may also borrow from private sources.

Figure 5
IMF's Liquidity Ratio, 1984–99
(In percent; end of December)



General Arrangements to Borrow (GAB). In July 1998, to finance the augmentation of Russia's Extended Arrangement, the IMF was authorized to borrow the equivalent of SDR 6.3 billion under the GAB. The GAB are a set of credit arrangements under which 11 participants (industrial countries or their central banks) have agreed to provide resources to the IMF to forestall or cope with an impairment of the international monetary system. The GAB activation in connection with the arrangement for Russia was the first in 20 years and the first ever for use by a nonparticipant in the GAB. As agreed with participants at the time of activation, the amounts borrowed by the IMF (amounting to SDR 1.4 billion) were repaid to GAB participants and the GAB activation was canceled upon receipt by the IMF of the bulk of quota payments under the Eleventh General Review. This restored the amount potentially available under the GAB to its full SDR 17 billion. (An additional SDR 1.5 billion is potentially available under an associated agreement with Saudi Arabia.) Table 7 shows the amounts of the credit arrangements of participants in the GAB and Saudi Arabia.

Table 7
General Arrangements to Borrow (GAB)

Participant	**Amount (in millions of SDRs)**
Belgium	595.0
Canada	892.5
Deutsche Bundesbank	2,380.0
France	1,700.0
Italy	1,105.0
Japan	2,125.0
Netherlands	850.0
Sveriges Riksbank	382.5
Swiss National Bank	1,020.0
United Kingdom	1,700.0
United States	4,250.0
Total	**17,000.0**
Associated Agreement with Saudi Arabia	1,500.0
Total	**18,500.0**

*New Arrangements to Borrow (NAB).*The NAB, which are a new set of credit arrangements between the IMF and 25 member countries and institutions, took effect on November 17, 1998. The NAB have not replaced the GAB, which remain in force. The total resources potentially available to the IMF under the NAB and GAB combined are SDR 34 billion, double the amount available under the GAB alone. The two sets of arrangements share a common purpose: to make resources available to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. The NAB is the facility of first and principal recourse, unless a GAB participant (all GAB participants are also participants in the NAB) requests the use of IMF resources; in this case, a proposal for calls may be made under either of the facilities. Table 8 shows the credit arrangements of participants under the NAB, which will remain in effect for five years from November 17, 1998, and may be renewed. The NAB were activated for the first time in December 1998, when the IMF was authorized to borrow SDR 9.1 billion to help finance drawings under a Stand-By Arrangement for Brazil. Of that amount, SDR 2.9 billion was actually drawn. Like the GAB, this borrowing was repaid following the increase in IMF resources resulting from the quota payments under the Eleventh General Review.

Access Policy and Limits on Use of IMF Resources

The rules governing access to the IMF's general resources apply uniformly to all members. Access is determined primarily by a member's balance of payments need, the strength of its adjustment policies, and its capacity to repay the IMF. Access limits are set in terms of quota and comprise annual and cumulative limits (see Table 9). In January 1999, in connection with the impending quota increase, the Board decided to maintain the annual and cumulative limits under the credit tranches and the Extended Fund Facility unchanged in percent of quota, thereby effectively raising these limits in SDR terms under the new, higher quotas. The annual access limit under the credit tranches and the EFF is 100 percent of quota, while the cumulative access limit is 300 percent of quota. Upon the effectiveness of the quota increase, access to additional resources under Stand-By or Extended Arrangements in support of debt and debt-service reduction operations was lowered to 20 percent from 30 percent of quota. The amount that could be set aside under a Stand-By or Extended Arrangement for the same purpose was reduced to 15 percent from about 25 percent of actual access under the arrangement. Similarly, the access limits under the various provisions of the CCFF, and under the Buffer Stock Financing Facility (BSFF), were also reduced approximately in proportion to the quota increase, thereby maintaining them broadly constant in SDR terms. (For access limits and norms under the ESAF, see below, "SAF and ESAF.")

The access policies and limits applicable under the credit tranches and the EFF do not apply to the Supplemental Reserve Facility or the Contingent Credit Lines. Under the SRF, the IMF makes financial assistance available to member countries for a period of up to one year in case of exceptional balance of payments difficulties that are attributable to a large short-term financing need resulting from a sudden and disruptive loss of market confidence. Under the CCL, financial assistance is committed for a one-year period, but no purchases are made unless and until the CCL is activated. SRF drawings are made within the context of a Stand-By or Extended Arrangement but are not subject to a specific quota limit. Similarly, commitments and, upon activation, drawings under the CCL are made within the context of a Stand-By Arrangement and are not subject to a specific quota limit, although they are expected to be within a range of 300–500 percent of quota. In 1998/99, SRF resources were committed on two separate occasions—in July 1998, in the amount of SDR 4.0 billion, as part of the augmentation of the Extended Arrangement for Russia, and in December 1998, in the amount of SDR 9.1 billion, under the Stand-By Arrangement for Brazil. Korea, for which financing under the SRF was approved in 1997/98, began making repurchases in December 1998 in line with the 1–1½ year expectation provisions of the facility.

Members' Use of IMF Resources and Credit Outstanding

In 1998/99, members' purchases from the General Resources Account, excluding reserve tranche pur-

Table 8
New Arrangements to Borrow (NAB)

Participant	Amount (in millions of SDRs)
Australia	810
Austria	412
Belgium	967
Canada	1,396
Denmark	371
Deutsche Bundesbank	3,557
Finland	340
France	2,577
Hong Kong Monetary Authority	340
Italy	1,772
Japan	3,557
Korea	340
Kuwait	345
Luxembourg	340
Malaysia	340
Netherlands	1,316
Norway	383
Saudi Arabia	1,780
Singapore	340
Spain	672
Sveriges Riksbank	859
Swiss National Bank	1,557
Thailand	340
United Kingdom	2,577
United States	6,712
Total	**34,000**

Table 9
Access Limits, April 1999
(In percent of member's quota)

Facility or Policy	Limit
Stand-By and Extended Arrangements[1]	
Annual	100
Cumulative	300
Special Facilities	
Supplemental Reserve Facility/Contingent Credit Lines	none
Compensatory and Contingency Financing Facility	
Export earnings shortfall[2]	20
Excess cereal import costs[2]	10
Contingency financing	20
Optional tranche	15
Buffer Stock Financing Facility	25
Enhanced Structural Adjustment Facility	
Three-year access	
Regular	140
Exceptional	185

[1]Under exceptional circumstances, these limits may be exceeded.
[2]When a member has a satisfactory balance of payments position except for the effect of an export earnings shortfall or an excess in cereal import costs, a limit of 45 percent of quota applies to either the export earnings shortfall or the excess cereal import cost, with a joint limit of 55 percent.

Table 10
Selected Financial Indicators
(In millions of SDRs)

	Financial Year Ended April 30									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	During Period									
Total disbursements	**5,266**	**6,823**	**5,903**	**5,877**	**5,903**	**11,178**	**12,303**	**5,644**	**19,924**	**22,240**
Purchases by facility (GRA)[1]	4,440	6,248	5,294	5,284	5,241	10,592	10,826	4,939	18,951	21,414
Stand-By and first credit tranche	1,183	1,975	2,343	2,940	1,052	7,587	9,127	1,836	16,127	12,868
Extended Fund Facility	2,449	2,146	1,571	2,254	746	1,595	1,554	2,820	2,824	5,947
Compensatory and Contingency Financing Facility	808	2,127	1,381	90	718	287	9	282	—	2,600
Systemic Transformation Facility	—	—	—	—	2,725	1,123	136	—	—	—
Loans under SAF/ESAF Arrangements	826	575	608	593	662	587	1,477	705	973	826
Special Disbursement Account resources	584	180	138	49	68	19	185	—	—	—
ESAF Trust resources	242	395	470	544	594	568	1,292	705	973	826
By region	5,266	6,823	5,903	5,877	5,903	11,178	12,303	5,644	19,924	22,240
Africa	1,289	577	740	377	1,185	1,022	2,304	992	876	542
Asia	525	1,714	1,476	1,806	690	383	367	181	16,446	8,918
Europe	268	1,960	1,516	1,343	3,258	2,896	5,156	3,381	2,170	5,169
Middle East	66	—	333	26	11	76	129	153	148	157
Western Hemisphere	3,119	2,572	1,838	2,325	758	6,801	4,427	937	283	7,454
Repurchases and repayments	**6,399**	**5,608**	**4,770**	**4,117**	**4,509**	**4,231**	**7,100**	**7,196**	**4,385**	**11,091**
Repurchases	6,042	5,440	4,768	4,081	4,343	3,984	6,698	6,668	3,789	10,465
Trust Fund and SAF/ESAF loan repayments	357	168	2	36	166	247	402	528	596	626
	End of Period									
Total outstanding credit provided by IMF	**24,388**	**25,603**	**26,736**	**28,496**	**29,889**	**36,837**	**42,040**	**40,488**	**56,026**	**67,175**
Of which:										
General Resources Account	22,098	22,906	23,432	24,635	25,533	32,140	36,268	34,539	49,701	60,651
Special Disbursement Account	1,549	1,729	1,865	1,879	1,835	1,651	1,545	1,220	922	677
Administered accounts										
Trust Fund	326	158	158	158	105	102	95	90	90	89
ESAF Trust[2]	416	811	1,281	1,824	2,416	2,944	4,132	4,639	5,314	5,758
Percentage change in total outstanding credit	–4	5	4	7	5	23	14	–4	38	20
Number of indebted countries	87	81	82	90	93	99	97	95	94	94

[1]Excludes reserve tranche purchases.
[2]Includes Saudi Fund for Development associated loans.

chases,[21] amounted to SDR 21.4 billion, exceeding the 1997/98 level of SDR 19.0 billion (Table 10; see also Appendix II, Table 7). These purchases consisted of SDR 12.6 billion under Stand-By Arrangements (compared with SDR 16.1 billion in 1997/98), SDR 5.9 billion under Extended Arrangements (SDR 2.8 billion in 1997/98), and SDR 2.6 billion under the CCFF (none in 1997/98). The IMF also provided emergency financing of SDR 0.2 billion in the first credit tranche to members facing postconflict and natural disaster situations. Loans under ESAF Arrangements totaled SDR 0.8 billion.

The largest user of IMF resources in 1998/99 was Brazil, which purchased SDR 7.1 billion under a Stand-By Arrangement, of which SDR 6.5 billion was under the SRF. Russia was another large user, purchasing a total of SDR 4.1 billion, of which SDR 2.2 billion was under the CCFF and the balance under an Extended

[21]Reserve tranche purchases represent members' use of their own IMF-related assets and not use of IMF credit. Reserve tranche purchases totaling SDR 2.7 billion were made by 93 members in 1998/99. This compares with three members purchasing SDR 1.0 billion in 1997/98. The high level of reserve tranche purchases in 1998/99 was due to the use of the same-day SDR borrowing facility by 86 members to make their quota payments, who then purchased their newly created reserve tranche positions, amounting to SDR 2.2 billion in total, to repay the SDR loans.

Arrangement that included SDR 0.7 billion under the SRF. Among countries in Asia still affected by the crisis that began in 1997, Indonesia drew SDR 4.6 billion, Korea SDR 3.0 billion (SDR 2.9 billion under the SRF), the Philippines SDR 0.4 billion, and Thailand SDR 0.4 billion, under their respective arrangements (Appendix II, Table 7). Other members that used relatively large amounts of IMF resources were Bulgaria (SDR 0.3 billion), Pakistan (SDR 0.4 billion), and Ukraine (SDR 0.4 billion). The regional distribution of use of IMF resources is shown in Table 11. Repurchases in the GRA during 1998/99 totaled SDR 10.5 billion, compared with SDR 3.8 billion in the previous financial year (Appendix II, Table 8). The higher level of repurchases was due in part to Korea's SRF repurchases, which amounted to SDR 4.5 billion. Given the recent rise in the use of IMF resources (Figure 6), scheduled repurchases will remain high over the next few years. Sizable amounts are anticipated to be repurchased in 1999 and 2000 under the SRF, based on the expectation of repurchases under this facility within one to one and a half years after the date of purchase.

Taking into account both purchases and repurchases, IMF credit outstanding in the GRA increased by SDR 11.0 billion in 1998/99, to SDR 60.7 billion as of April 30, 1999, from SDR 49.7 billion on April 30, 1998 (Appendix II, Table 9). Including net disbursements under the SAF and ESAF (see below), IMF credit outstanding under all facilities increased to SDR 67.2 billion on April 30, 1999, from SDR 56.0 billion a year earlier (Figure 7).

Table 11
Use of IMF Resources in 1998/99: Regional Distribution
(In billions of SDRs)

Asia	8.9
Latin America	7.3
Europe	5.0
Middle East and Africa	0.2
Total	**21.4**

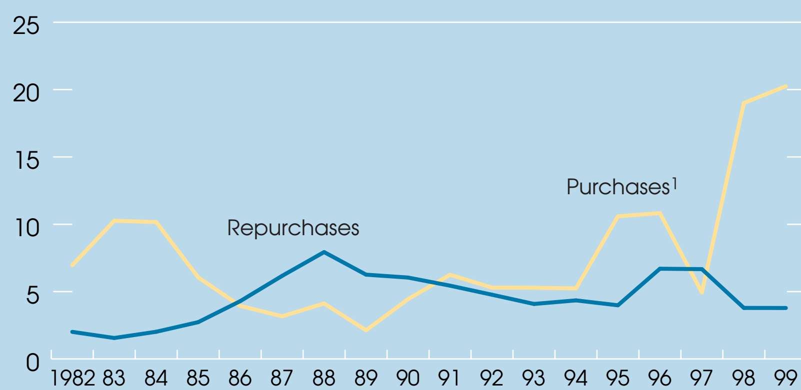
Stand-By and Extended Arrangements

Commitments under seven Stand-By Arrangements totaling SDR 14.3 billion were approved in 1998/99, including an augmentation by SDR 1.0 billion of the Stand-By Arrangement for Indonesia (Appendix II, Table 3). The largest new Stand-By Arrangement, SDR 13.0 billion for Brazil, included SDR 9.1 billion available until December 1999 under the SRF. New Stand-By Arrangements were also approved for Bosnia and Herzegovina (SDR 61 million), El Salvador (SDR 38 million), Uruguay (SDR 70 million), and Zimbabwe (SDR 131 million). As of April 30, 1999, nine countries had Stand-By Arrangements from the IMF. Total commitments under these arrangements were SDR 32.7 billion (Appendix II, Table 2) and undrawn balances amounted to SDR 8.6 billion.

During 1998/99, the IMF approved commitments under five Extended Arrangements totaling SDR 14.1 billion (Appendix II, Table 4). The Extended Arrangement for Russia was augmented by SDR 6.3 billion but subsequently was canceled in March 1999. A total of SDR 5.4 billion was approved under an Extended Arrangement for Indonesia, equivalent to the undrawn balance under its earlier Stand-By Arrangement, which was canceled, plus an augmentation of SDR 0.7 billion. Extended Arrangements were also approved for Bulgaria (SDR 0.6 billion), Jordan (SDR 0.1 billion), and Ukraine (SDR 1.6 billion). As of April 30, 1999, 12 countries had Extended Arrangements, with commitments totaling SDR 11.4 billion (Appendix II, Table 2) and undrawn balances of SDR 7.3 billion.

Overall, new commitments of IMF resources under Stand-By and Extended Arrangements amounted to SDR 28.4 billion, of which nearly one-half was

Figure 6
General Resources Purchases and Repurchases, Financial Years Ended April 30, 1982–99
(In billions of SDRs)

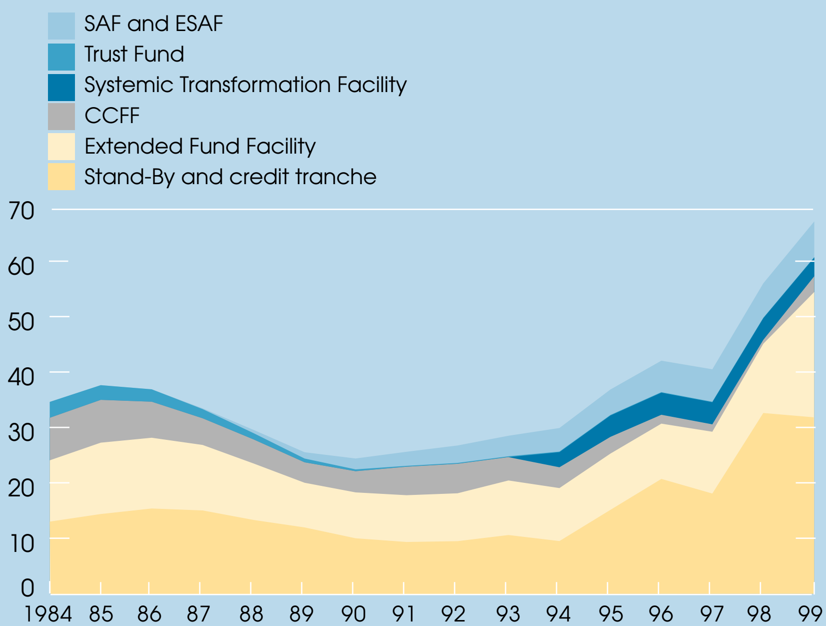


[1]Excluding reserve tranche purchases.

Figure 7

Total IMF Credit Outstanding to Members
Financial Years Ended April 30, 1984–99

(In billions of SDRs)



approved for Brazil and about one-fifth each for Indonesia and Russia.

Special Facilities

The IMF's special facilities consist of the Compensatory and Contingency Financing Facility and the Buffer Stock Financing Facility. The latter has not been used since 1984. During 1998/99, four countries—Azerbaijan, Jordan, Pakistan, and Russia—drew a total of SDR 2.6 billion under the CCFF. The IMF also provided in 1998/99 emergency postconflict assistance (totaling SDR 19 million) for the Republic of Congo and Sierra Leone, and emergency natural disaster assistance (totaling SDR 202 million) for Bangladesh, the Dominican Republic, Haiti, Honduras, and St. Kitts and Nevis.

SAF and ESAF

The IMF provides concessional financing to low-income countries under the Enhanced Structural Adjustment Facility (ESAF).[22] Ten new ESAF Arrangements with commitments totaling SDR 0.9 billion were approved in 1998/99 (for Albania, Bolivia, the Central African Republic, The Gambia, Guyana, Honduras, the Kyrgyz Republic, Rwanda, Tajikistan, and Zambia). Six ESAF Arrangements were augmented by a total of SDR 0.1 billion in response to the increased need for balance of payments financing of countries affected by the crisis in Russia and neighboring countries of the Commonwealth of Independent States (Armenia, the Kyrgyz Republic, and Tajikistan), by natural disasters (Nicaragua and Tanzania), and by other external factors (Malawi) (Appendix II, Table 5). As of April 30, 1999, 35 ESAF Arrangements were in effect. Cumulative commitments under all approved SAF and ESAF Arrangements (excluding undisbursed amounts under expired and canceled arrangements) totaled SDR 11.1 billion as of April 30, 1999,[23] compared with SDR 10.3 billion a year earlier. Total ESAF disbursements amounted to SDR 0.8 billion during 1998/99, compared with SDR 1.0 billion in 1997/98; cumulative SAF and ESAF disbursements through April 30, 1999, amounted to SDR 9.0 billion.

In January 1999, the Board decided that upon the effectiveness of the quota increase under the Eleventh General Review, the access limits and norms under the ESAF be reduced as a proportion of quota so as to maintain the access limits and norms broadly unchanged in SDR terms, as the amount of resources available for the ESAF remained unchanged. The new access limits are shown in Table 9.

The ESAF has been financed mainly from contributions in the form of loans and grants by member countries to the ESAF Trust, administered by the IMF, and also from SAF resources in the Special Disbursement Account. SAF resources were made available in conjunction with loans from the ESAF Trust until February 1994, when the Board decided to cease approving new commitments of SAF resources under ESAF Arrangements and to transfer resources from the SDA to the Subsidy Account for the subsidization of ESAF Trust loans. As of April 30, 1999, total disbursements of SDA resources under SAF and ESAF Arrangements amounted to SDR 2.2 billion.

[22]The SAF has been phased out; the last annual SAF arrangement expired in December 1996.

[23]Cumulative commitments under the SAF amounted to SDR 1.8 billion, while cumulative commitments of ESAF Trust and Special Disbursement Account (SDA) resources under ESAF Arrangements amounted to SDR 9.4 billion.

Financing of ESAF loan resources for the enlarged and extended ESAF Trust, which became effective on February 23, 1994, has been provided by a broad cross-section of the IMF's membership. Total effective commitments by lenders to the ESAF Trust amounted to SDR 9.5 billion as of April 30, 1999. The commitment period for ESAF Trust loans to eligible borrowing members runs through December 31, 2000, with disbursements to be made through the end of 2003. Based on projections indicating that at least an additional SDR 1.5 billion of loan resources would be needed to meet potential demand through the end of 2000, the target for total loan resources was increased in late 1998 to SDR 11 billion. In April 1999, Canada agreed to provide SDR 200 million of additional loan resources, and indications were received from the following countries for additional amounts: Belgium (SDR 200 million), France (SDR 300–400 million), Germany (SDR 300–400 million), Italy (SDR 250 million), and the Netherlands (SDR 250 million).

Contributions to the Subsidy Account enable loans from the ESAF Trust to be provided at a highly concessional rate of interest (currently 0.5 percent a year). The total value of bilateral subsidy contributions is estimated at SDR 3.5 billion. In addition, as indicated above, the Board transferred SDR 0.4 billion from the SDA to the Subsidy Account in early 1994. This contribution by the IMF, including the interest it will earn, is valued at SDR 0.6 billion.

The availability of resources in the Subsidy Account, net of subsidies already paid, rose to SDR 1,733 million as of April 30, 1999, from SDR 1,629 million a year earlier. The ESAF Trust made interest payments of SDR 205 million to lenders in 1998/99; of this amount, SDR 49 million reflected interest payments by borrowers from the Trust and the balance of SDR 156 million was drawn from the resources of the Subsidy Account.

For details of SAF and ESAF Arrangements, and of borrowing agreements and subsidy contributions for the ESAF Trust, see Appendix II, Tables 1, 5, and 10.

ESAF-HIPC Trust

The ESAF-HIPC Trust was established in February 1997 to provide financial resources to eligible members that qualify for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), and to subsidize the interest rate on loans to ESAF-eligible members under the interim ESAF (see Chapter 8). As of April 30, 1999, contributions to the Trust had been received from nine countries. To help meet the IMF's commitments under the HIPC Initiative, the Board authorized the temporary transfer of up to SDR 250 million from the Reserve Account of the ESAF Trust (through the SDA) to the ESAF-HIPC Trust for financing special ESAF operations, provided other resources were not available. All creditors to the Loan Account of the ESAF Trust consented to such a transfer. In addition, to augment the resources available to the ESAF-HIPC Trust, the Board decided to forgo the reimbursement from the ESAF Trust to the GRA for the cost of administering the Trust in 1997/98, 1998/99, and 1999/2000, and instead to transfer an equivalent amount to the ESAF-HIPC Trust. Transfers of SDR 41 million a year were made in 1997/98 and 1998/99. On April 30, 1999, there was a transfer receivable by the ESAF-HIPC Trust of SDR 13.3 million on account of the decision by the participants in the NAB that one-third of the surcharge on Brazil's outstanding SRF purchases be transferred to the ESAF-HIPC Trust.

The Executive Boards of the World Bank and the IMF have decided to commit assistance to seven countries that have reached their "decision points" under the HIPC Initiative. Two of these countries—Uganda and Bolivia—had reached their "completion points" under the Initiative by April 30, 1999,[24] and had received assistance from the IMF in the form of grants that were deposited in subaccounts of the Umbrella Account for HIPC Operations.[25] These grants are to be used to service a part of these members' debts to the IMF under schedules agreed with them.

A grant of SDR 51.5 million was deposited in a subaccount for Uganda in April 1998, and a grant of SDR 21.2 million was deposited in a subaccount for Bolivia in September 1998. Following these disbursements, the resources available in the ESAF-HIPC Trust amounted to SDR 99.7 million at the end of April 1999.

IMF Income, Charges, and Burden Sharing

At the beginning of the financial year, the IMF sets the rate of charge on the use of its resources as a proportion of the weekly SDR interest rate in order to achieve a target amount of net income to add to its reserves. This method of setting the rate of charge is designed to ensure that the IMF's operational income closely reflects its operational costs—which depend largely on the SDR interest rate—and thus to minimize the likelihood of the need for adjustments to the rate of charge during the financial year.

[24]Guyana and Mozambique reached their completion points in May and June 1999, subsequent to the end of the financial year; see Table 5.

[25]The "Umbrella Account for HIPC Operations" was established to receive and administer resources on behalf of eligible member countries qualifying for assistance under the terms of the ESAF-HIPC Trust. Within the umbrella account, the IMF establishes an individual subaccount for each member receiving resources from the ESAF-HIPC Trust. These resources are used to meet part of the member's debt-service payments on existing debt to the IMF.

In April 1998, the rate of charge on the use of IMF resources for 1998/99, other than resources provided under the SRF, was set at 107 percent of the SDR interest rate in order to achieve a net income target of SDR 107 million, or 5 percent of the IMF's reserves at the beginning of the year—with the proviso that any income in excess of the target (excluding operational income generated from the use of resources under the SRF) would be used retroactively to reduce the rate of charge for the year. Following a review of the IMF's income position at midyear, it was decided to maintain the rate of charge at 107 percent of the SDR interest rate. At the end of the financial year, actual income in excess of the target of SDR 1.7 million was returned to members that paid charges during the year, and the proportion of the rate of charge to the SDR interest rate was reduced retroactively to 106.9 percent for 1998/99. The average rate of charge on the use of IMF resources in 1998/99 was 4.09 percent before adjustments for burden sharing, which are discussed below (Appendix II, Table 14).

In addition to the regular rate of charge, the IMF levies a surcharge on the use of credit under the SRF. During the first year from the date of the first purchase under this facility, the surcharge is set at 300 basis points above the basic rate of charge; it increases by an additional 50 basis points at the end of the first year and every six months thereafter, until the surcharge reaches 500 basis points. An identical surcharge is levied on the use of credit under the Contingent Credit Lines established in April 1999. Net operational income generated from the use of resources under the SRF during 1998/99, after meeting the expenses of administering the ESAF Trust for the year, amounted to SDR 329 million, which was placed to the IMF's reserves. The GRA was not reimbursed for the expenses of administering the ESAF Trust during 1998/99. That amount was instead transferred from the ESAF Trust Reserve Account, through the Special Disbursement Account, to the ESAF-HIPC Trust.

The IMF pays remuneration to a member on its reserve tranche position, except for a small portion thereof. The rate of remuneration, before the adjustments under the burden-sharing mechanisms discussed below, is set at 100 percent of the SDR interest rate, which averaged 3.82 percent in 1998/99.

The IMF continues to have measures in place to strengthen its financial position in view of the existence of overdue financial obligations. First, a target amount of net income is determined each year to be added to the IMF's reserves, which provide protection against administrative deficits and losses of a capital nature. Second, under the decisions on burden sharing, debtor and creditor members share equally, through adjustments to the rate of charge and the rate of remuneration, the financial costs to the IMF of deferred overdue charges and of the allocation to the first Special Contingent Account (SCA-1), which for 1998/99 was set at 5 percent of reserves at the beginning of the year (SDR 107 million). These adjustments, however, cannot reduce the rate of remuneration to less than 85 percent of the SDR interest rate. The SCA-1 was established as a precautionary measure to protect the IMF against the risks associated with overdue obligations; as of April 30, 1999, SCA-1 balances amounted to SDR 991 million. The Executive Board has extended these procedures through 1999/2000.

As part of the strengthened cooperative strategy to resolve the problem of protracted overdue financial obligations to the IMF, extended burden-sharing arrangements were established in July 1990 providing for further adjustments to the rates of charge and remuneration. The additional precautionary balances generated under these arrangements were placed to a second Special Contingent Account (SCA-2). The SCA-2 was established as a safeguard against potential losses on credit extended from the GRA under a successor arrangement, following successful completion of a rights accumulation program (under which a member in protracted arrears accumulates "rights" to future IMF purchases through its adjustment and reform efforts), and also to provide additional liquidity for financing the encashment of accumulated rights. The adjustments under the extended burden-sharing arrangements ended in 1996/97, after the target amount of SDR 1 billion had been accumulated in the SCA-2.

When deferred charges that have led to burden-sharing adjustments are settled, an equivalent amount is refunded to members that paid additional charges or received reduced remuneration. Settlements of overdue charges previously deferred, and which had given rise to burden-sharing adjustments, amounted to SDR 0.6 million in 1998/99, and cumulative refunds amounted to SDR 963 million as of April 30, 1999. Balances in the SCA-1 will be returned to contributors when all overdue financial obligations have been settled, or at such earlier time as the IMF may decide. Balances in the SCA-2 will be returned when all outstanding purchases related to the encashment of rights have been repurchased, or at such earlier time as the IMF may decide.

Unpaid charges due by members in protracted arrears and contributions to the SCA-1 resulted in adjustments to the basic rate of charge of 13 basis points and to the rate of remuneration of 15 basis points in 1998/99. The adjusted rate of charge and the adjusted rate of remuneration averaged 4.22 percent and 3.67 percent, respectively, during the financial year.

Table 12
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More
(In millions of SDRs; end of period)

	Financial Year Ended April 30					
	1994	1995	1996	1997	1998	1999
Amount of overdue obligations	2,911.3	2,982.6	2,174.9	2,212.2	2,261.2	2,299.6
Number of countries	9	8	6	7	7	7
Of which:						
General Department	2,729.2	2,808.8	2,001.3	2,023.1	2,066.5	2,091.9
Number of countries	8	7	5	5	5	6
SDR Department	51.7	46.6	53.4	73.3	79.1	92.1
Number of countries	9	8	6	7	7	6
Trust Fund	130.4	127.2	120.2	115.8	115.6	115.6
Number of countries	4	4	3	3	3	3
Number of ineligible members	5	5	4	4	4	4

Following the retroactive reduction in charges of SDR 1.7 million, net income of SDR 436 million for 1998/99 was placed to the IMF's reserves, of which SDR 329 million was placed to the General Reserve. Total reserves increased to SDR 2.6 billion as of April 30, 1999, from SDR 2.1 billion a year earlier. For 1999/2000, the Board agreed to set the proportion of the rate of charge to the SDR interest rate at 113.7 percent, so as to achieve a target amount of net income of SDR 128 million, in addition to the net income generated under the SRF and the CCL. The Board also decided to forgo the reimbursement to the GRA in 1999/2000 for the costs of administering the ESAF Trust and to make an equivalent amount available to the ESAF-HIPC Trust.

Precautionary balances generally available to protect the IMF's financial position against the consequences of overdue repurchases in the GRA (i.e., reserves plus the balance in the SCA-1) totaled SDR 3.6 billion as of April 30, 1999, equivalent to 360 percent of outstanding GRA credit to members in arrears to the IMF by six months or more (SDR 1.0 billion). Total precautionary balances (i.e., reserves plus the balances in the two Special Contingent Accounts) amounted to SDR 4.6 billion as of April 30, 1999, equivalent to 7.5 percent of total outstanding GRA credit.

In April 1999, the Board considered the level and adequacy of the IMF's precautionary balances. In reaching a judgment, Directors were guided by two general principles: precautionary balances should fully cover the credit outstanding to members in protracted arrears to the IMF; and precautionary balances should also include a margin for the risk exposure related to credit extended to members currently meeting their payment obligations to the IMF in a timely manner. In light of the continued significant growth in outstanding IMF credit, Directors agreed to maintain the current rate of accumulation of precautionary balances in 1999/2000. As mentioned above, the rate of charge for 1999/2000 was set at 113.7 percent of the SDR interest rate to generate non-SRF income of SDR 128 million, equivalent to 5 percent of the IMF's reserves at the beginning of the year, with an equal amount to be added to the SCA-1. Finally, net operational income from the SRF and the CCL for 1999/2000, after meeting the expenses of administering the ESAF Trust, will be placed to the General Reserve at the end of the year.

Overdue Financial Obligations

Total overdue financial obligations to the IMF increased slightly to SDR 2.30 billion on April 30, 1999, from SDR 2.26 billion a year earlier.[26] All of these overdue obligations were protracted, that is, overdue by six months or more. No new cases of protracted arrears emerged in 1998/99, nor were any of the existing cases cleared, leaving the number of members in protracted arrears to the IMF at seven. Data on arrears to the IMF of members overdue by six months or more are shown in Table 12, while information on overdue obligations by member, type, and duration is shown in Table 13.

Overdue financial obligations continued to be concentrated among four members—the Democratic Republic of the Congo (formerly Zaïre), Liberia,

[26]The data in this section include the overdue financial obligations of the Federal Republic of Yugoslavia (Serbia/Montenegro), which has not yet completed arrangements for succession to IMF membership.

Table 13
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 1999
(In millions of SDRs)

	By Type				By Duration			
	Total	General Department (incl. SAF)	SDR Department	Trust Fund	Less than one year	1–2 years	2–3 years	3 years or more
Afghanistan, Islamic State of	3.7	—	3.7	—	1.2	1.2	1.0	0.3
Congo, Democratic Republic of the	361.4	353.3	8.1	—	27.8	34.9	34.9	263.8
Iraq	37.2	0.1	37.1	—	4.2	4.1	3.7	25.2
Liberia	464.7	416.4	17.9	30.5	10.6	10.8	10.4	432.9
Somalia	199.4	184.7	6.9	7.8	5.2	6.2	6.8	181.2
Sudan	1,141.2	1,063.8	—	77.4	23.0	25.1	25.2	1,067.9
Yugoslavia, Federal Republic of (Serbia/Montenegro)	92.0	73.6	18.4	—	5.5	5.4	9.1	72.0
Total	**2,299.6**	**2,091.9**	**92.1**	**115.6**	**77.5**	**87.7**	**91.1**	**2,043.3**

Somalia, and Sudan—whose arrears accounted for 94 percent of total overdue obligations to the IMF. As of April 30, 1999, these four members were ineligible to use the general resources of the IMF under Article XXVI, Section 2(*a*). Declarations of noncooperation—a further step under the strengthened cooperative strategy (see below)—were also in effect for three of these countries: the Democratic Republic of the Congo (issued February 14, 1992), Liberia (March 30, 1990), and Sudan (September 14, 1990). The voting rights of two of the members remained suspended in 1998/99: the Democratic Republic of the Congo (effective June 2, 1994) and Sudan (August 9, 1993). In addition, a complaint with respect to the compulsory withdrawal from the IMF of Sudan (issued April 8, 1994) remained outstanding at the end of the financial year.

Progress Under the Strengthened Cooperative Strategy

The strengthened cooperative strategy on overdue financial obligations was established in May 1990 to resolve the problem of protracted arrears to the IMF. The three key elements of the strategy—prevention, intensified collaboration, and remedial measures—continued to be implemented in 1998/99, in order to prevent the emergence of new arrears and to assist overdue members willing to cooperate with the IMF in finding solutions to their arrears problems.

Prevention remains the first line of defense against the emergence of new cases of arrears. Preventive measures under the strategy include IMF surveillance of members' economic policies, policy conditionality required for the use of IMF resources, technical assistance to support members' adjustment and reform efforts, and the assurance of adequate balance of payments financing for members under IMF-supported programs. Assessments of members' medium-term external viability and capacity to repay the IMF are also important elements of prevention.

The *intensified collaborative element* of the arrears strategy helps cooperating members to design and implement the economic and structural policies needed to resolve their balance of payments and arrears problems. It also provides a framework for members in arrears to establish a strong track record of policy performance and payments to the IMF, and, in turn, to mobilize bilateral and multilateral financial support for their adjustment efforts and to clear arrears to the IMF and other creditors. Pursuit of the intensified collaborative approach has resulted in the normalization of relations between the IMF and most members previously in protracted arrears—Peru, Sierra Leone, and Zambia under the rights approach, described below, and Cambodia, Guyana, Honduras, Panama, and Vietnam through other mechanisms. The collaborative approach has also contributed to improvements in policy performance and payments by other members with overdue obligations to the IMF.

The rights approach, established in 1990, allows eligible members (limited to the 11 members in protracted arrears to the IMF at the end of 1989) to build a track record of policy performance and payments that serves as the basis for an accumulation of future "rights" to a disbursement under a regular IMF arrangement, following the conclusion of the rights accumulation program (RAP) and the clearance of arrears to the IMF. In light of the risks associated with large disbursements to members previously in protracted arrears, the IMF's second Special Contingent

Account (SCA-2) was established as a precautionary balance and source of additional liquidity to assist in financing encashments of rights under arrangements in the GRA. Similarly, the IMF pledged to mobilize up to three million ounces of gold in respect of encashments of rights under ESAF Arrangements, in the event of a potential shortfall in resources available to meet ESAF Trust obligations. Following its annual review of the arrears strategy in March 1999, the Executive Board decided to extend again the deadline for entry into a rights accumulation program until the spring 2000 meeting of the Interim Committee, since, of the original 11 eligible members, Liberia, Somalia, and Sudan remained in arrears to the IMF.

The final element of the arrears strategy is the timetable of *remedial measures* applied to members with overdue obligations that do not cooperate actively with the IMF in seeking a solution to their arrears problems. This timetable guides Board consideration of remedial measures of increasing intensity, although the application of each step is determined in light of the individual circumstances of the member concerned. In the cases of Afghanistan, the Democratic Republic of the Congo, Iraq, and Somalia—where civil conflicts, the absence of a functioning government, or international sanctions have prevented the IMF from reaching a judgment regarding the member's cooperation—the application of remedial measures has been delayed until such a judgment can be reached.

Under the timetable, when a member has been in arrears to the IMF for one month, the Managing Director notifies the Board concerning the member's overdue financial obligations. No such notifications were issued in 1998/99, as all newly emerging overdue obligations were cleared before a one-month notification became necessary. As a result, there was no need to consult with the Board on the sending of communications to IMF Governors regarding any member's arrears (as called for under the timetable when a member has been in arrears for six weeks), nor to issue a complaint under either Rule K-1 or Rule S-1 (an action taken when a member has been in arrears for two months).

Several reviews were conducted by the Board in 1998/99 concerning members in protracted arrears to the IMF. Following an improvement in the country's political and security situation, the Board reviewed the overdue obligations of Liberia on two occasions (November 2, 1998, and February 25, 1999). At both Board meetings, Directors decided to postpone further remedial measures in light of Liberia's continued efforts to cooperate with the IMF. They urged Liberia to continue to strengthen its policy performance and cooperation with the IMF in seeking a solution to the problem of its arrears, so as to avoid the need to consider whether to initiate the procedure on suspension of Liberia's voting and related rights in the IMF. At the most recent meeting, Directors also called on Liberia to increase its monthly payments to the IMF.

No review was held during 1998/99 of the decision to suspend the Democratic Republic of the Congo's voting and related rights in the IMF. Although the Congolese authorities committed themselves to a payments schedule and made several payments in mid-1998, such payments were suspended in September 1998 following a renewed outbreak of hostilities in the country. In light of the deterioration in the security situation, the Board decided twice (on September 10, 1998, and March 10, 1999) to postpone a further review of the Congo's arrears to the IMF until a date to be determined by the Managing Director when, in his judgment, there is once again a basis for evaluating the Congo's economic and financial situation, the stance of its economic policies, and its cooperation with the IMF.

On two occasions (August 6, 1998, and February 24, 1999) the Board reviewed the overdue obligations of Sudan, which has the largest and most protracted arrears to the IMF. At those meetings, Directors noted the satisfactory performance of Sudan in terms of economic policies and payments to the IMF under annual staff-monitored programs over the past two years, its adoption of a strengthened program for 1999, and its proposed payments schedule for 1999—which was expected to lead to a further, modest reduction in Sudan's arrears to the IMF. In view of these developments, the Board decided at the latter review not to proceed at that time to recommend the compulsory withdrawal of Sudan to the Board of Governors. The Board also encouraged Sudan to conclude negotiations on further measures that could form the basis for a medium-term program to be monitored by the IMF staff, and to begin to regularize relations with other multilateral and bilateral creditors.

SDR Department

The SDR is an international reserve asset created by the IMF under the First Amendment to its Articles of Agreement to supplement other reserve assets. First allocated in January 1970, total SDR allocations currently amount to SDR 21.4 billion. SDRs are held largely by IMF member countries—all of which are participants in the SDR Department—with the balance held in the IMF's General Resources Account and by official entities prescribed by the IMF to hold SDRs. Prescribed holders do not receive SDR allocations but can acquire and use SDRs in operations and transactions with participants in the SDR Department and with other prescribed holders under the same terms and conditions as participants. During

Box 16
Operational Implications of the Euro

On December 17, 1998, the Executive Board approved a decision determining the euro to be a "freely usable" currency effective January 1, 1999.[1] In reaching this decision, the IMF considered that the euro would play an important role in international financial transactions from the outset of Stage 3 of European Economic and Monetary Union. The decision, in effect, replaced the deutsche mark and the French franc with the euro on the list of freely usable currencies. Thus, effective January 1, 1999, the currencies determined by the IMF to be freely usable are the euro, Japanese yen, pound sterling, and U.S. dollar.[2]

The IMF's Articles of Agreement define a freely usable currency as "a member's currency that the IMF determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets." The freely usable currency designation has implications for the procedures surrounding the exchange of currencies in connection with financial operations and transactions between the IMF and its members. When a member engages in a transaction with the IMF involving a freely usable currency, it may obtain that currency from the issuing member or other sources, such as the commercial market. The issuer of the freely usable currency undertakes, if approached, to make "best efforts" to provide its currency to the buyer, but the rate of exchange is not guaranteed. (When a transaction with the IMF involves a non-freely usable currency, the rate of exchange—the "representative rate"—is set by the IMF at the value that results in equality in SDR terms between the two currencies being exchanged.)

Following consultations with the euro-area members, the IMF established, as of January 1, 1999, the representative exchange rate definition for the euro to be the same (including point of collection, time of day, and arrangements for reporting the euro/U.S. dollar exchange rate) for the 11 euro-area members. As agreed with the euro-area members, the representative exchange rate for the euro is the rate for the euro against the U.S. dollar as published daily by the European Central Bank. Effective from the date the euro was introduced, the IMF redenominated its holdings of the currencies of euro-area members to euros from the existing national currencies. Prior to the effectiveness of these changes, the IMF informed all its members that it would conduct all financial transactions involving the currencies of the euro-area members in euros and of the procedures for the exchange of the euro.

[1]On this date, the euro became the currency of the 11 members of the European Economic and Monetary Union (EMU): Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

[2]Since March 31, 1978, the deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar had been determined by the IMF to be freely usable currencies.

1998/99, the number of prescribed holders remained at 15.[27]

The SDR is the unit of account for IMF operations and transactions. It is also used as a unit of account, or the basis for a unit of account, by a number of other international and regional organizations and international conventions. In addition, to a very limited extent, the SDR has been used to denominate financial instruments created outside the IMF by the private sector (private SDRs). At the end of 1998/99, the currencies of four member countries were pegged to the SDR.

To enable all participants in the SDR Department to receive an equitable share of cumulative SDR allocations, the Board of Governors adopted a resolution in September 1997 proposing a Fourth Amendment to the IMF's Articles of Agreement. The proposed amendment, when approved, will authorize a special one-time allocation of SDR 21.4 billion, which would raise all participants' ratios of cumulative SDR allocations to quotas under the Ninth General Review to a common benchmark ratio of 29.315788813 percent. Appendix II, Table 11 shows the amount of the special allocation that each existing participant would be eligible to receive. The proposed amendment, which will become effective when ratified by three-fifths of the members having 85 percent of the total voting power, also provides for future participants to receive a special allocation following the later of (1) the date of their participation, or (2) the effective date of the Fourth Amendment. As of the end of 1998/99, 50 members representing 30.6 percent of the total voting power had ratified the proposed amendment. The proposed amendment would not affect the IMF's existing power to allocate SDRs based on a finding of a long-term global need to supplement reserves, as and when such a need arises.

SDR Valuation and Interest Rate Basket

The SDR's valuation is determined using a basket of currencies. The composition of the basket is reviewed every five years to ensure that the currencies included in the basket are representative of those used in international transactions and that the weights assigned to the currencies reflect their relative importance in the world's trading and financial systems. Since 1981, the currencies of five countries—France, Germany, Japan, the United Kingdom, and the United States—have been included

[27]Prescribed holders of SDRs are the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States, East African Development Bank, Eastern Caribbean Central Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Latin American Reserve Fund, and Nordic Investment Bank.

in the basket, as successive five-yearly reviews have determined that these are the five countries with the largest exports of goods and services. The five-yearly reviews also specify the initial weights of the currencies in the basket, reflecting their relative importance in international trade and reserves, as measured by the value of exports of goods and services of the countries issuing them and the balances of the currencies held as reserves by members of the IMF.[28]

With the introduction of the euro on January 1, 1999 (see Box 16), the currency amounts of the deutsche mark and French franc in the SDR basket were replaced with equivalent amounts of the euro, based on the fixed conversion rates between the euro and the deutsche mark and the French franc announced by the European Council on December 31, 1998.[29] The initial percentage weights and the corresponding amounts of each currency established on January 1, 1996 (the date of the most recent five-yearly revision of the valuation basket) and the currency amounts calculated on January 1, 1999, are shown in Table 14.

Table 14
Change in SDR Valuation Basket

Currency	Initial Weight (in percent)	Amount of Currency Units January 1, 1996	Currency	Amount of Currency Units January 1, 1999
U.S. dollar	39	0.5820	U.S. dollar	0.5821
Deutsche mark	21	0.4460	Euro (Germany)	0.2280
Japanese yen	18	27.2000	Japanese yen	27.2000
French franc	11	0.8130	Euro (France)	0.1239
Pound sterling	11	0.1050	Pound sterling	0.1050

Since August 1983, the SDR interest rate has been calculated weekly as a weighted average of interest rates on selected short-term instruments in the five countries whose currencies are included in the valuation basket. Since 1991, these rates and financial instruments have been the market yield on three-month treasury bills for France, the United Kingdom, and the United States; the three-month interbank deposit rate for Germany; and the three-month rate on certificates of deposit for Japan. With effect from January 1, 1999, the French and German instruments have been expressed in euros. The next revision of the SDR valuation and interest rate baskets will take place not later than 2000, with any changes to take effect on January 1, 2001.

SDR Operations and Transactions

The volume of SDR transactions reached a record SDR 49.1 billion in 1998/99,[30] boosted in particular by flows associated with the quota increase under the Eleventh General Review, as well as by steep increases in purchases and repurchases under IMF arrangements, and the repayment of borrowings by the IMF under the GAB and NAB. The dominant effect, however, was that of the quota increase, which led to a large rise in the IMF's holdings of SDRs in the GRA only partially offset during the year by transfers from the GRA to participants. Summary data on transfers of SDRs by participants, the GRA, and prescribed holders are presented in Table 15 (see also Appendix II, Table 12).

Transactions in SDRs are facilitated by arrangements with 12 members that stand ready to buy or sell SDRs for one or more freely usable currencies provided that their SDR holdings remain within certain limits. These "two-way arrangements" have helped ensure the liquidity of the SDR system, obviating the need for recourse to the designation mechanism (see Box 17). During the financial year, participants with two-way arrangements engaged in transactions totaling SDR 12.2 billion, including sales of SDR 5.6 billion and purchases of SDR 6.6 billion. Two other participants provided an additional SDR 1.4 billion in sales through ad hoc selling arrangements.

SDR transfers from participants to the GRA typically consist mainly of repurchases under IMF arrangements and charges on outstanding IMF credit, both of which flows increased sharply in 1998/99 (by 63 percent and 49 percent, respectively), reflecting the large expansion of IMF credit outstanding. These transfers were further boosted by exceptional flows (of some SDR 8.6 billion) associated with quota payments, which led to a tripling of transfers from participants to the GRA to SDR 16.2 billion in 1998/99 from SDR 4.8 billion in 1997/98 and to a large accumulation of SDRs by the GRA, whose holdings peaked at SDR 7.3 billion in February 1999.

The IMF attempted during 1998/99 to reduce rapidly the SDR holdings of the GRA to more normal

[28]Specific currency amounts consistent with these weights are fixed on the date on which the decision becomes effective. While these currency amounts remain unchanged for the subsequent five-year period, the actual weights of the respective currencies in the value of the SDR change on a daily basis as a result of changes in exchange rates.

[29]The currency amounts in the SDR basket were adjusted to ensure that the value of the SDR in U.S. dollar terms on December 31, 1998, calculated on the basis of the euro currency amounts was the same as the value actually prevailing on that day on the basis of the deutsche mark and French franc currency amounts.

[30]The previous peak of SDR 34.2 billion was reached in 1992/93, when transactions surged as a result of the quota increase under the Ninth General Review.

Table 15
Transfers of SDRs
(In millions of SDRs)

	Annual Averages[1]					Financial Years Ended April 30			
	1/1/70–4/30/78	5/1/78–4/30/81	5/1/81–4/30/83	5/1/83–4/30/87	5/1/87–4/30/96	1997	1998	1999	1/1/70–4/30/99
Transfers among participants and prescribed holders									
Transactions with designation									
From own holdings	221	294	815	165	—	—	—	—	5,016
From purchase of SDRs from IMF	43	1,150	1,479	1,744	110	—	—	—	14,727
Transactions by agreement	439	771	1,262	3,121	6,353	7,411	8,567	13,817	107,949
Prescribed operations	—	—	277	520	1,245	88	86	4,577	18,586
IMF-related operations	—	—	—	43	295	606	901	756	5,092
Net interest on SDRs	42	161	259	285	342	268	284	289	6,405
Total	**744**	**2,377**	**4,092**	**5,878**	**8,345**	**8,372**	**9,839**	**19,439**	**157,775**
Transfers from participants to General Resources Account									
Repurchases	306	809	702	991	2,126	4,364	2,918	4,761	41,517
Charges	259	620	1,233	2,574	1,791	1,616	1,877	2,806	39,192
Quota payments	24	1,703	175	1,591	1,452	—	—	8,644	33,741
Interest received on General Resources Account holdings	16	135	551	307	127	51	44	35	4,137
Assessments	1	1	2	4	4	4	4	3	79
Total	**606**	**3,269**	**2,662**	**5,466**	**5,499**	**6,035**	**4,844**	**16,249**	**118,666**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	208	1,474	2,227	2,554	3,056	4,060	4,243	9,522	66,151
Repayments of IMF borrowings	—	88	86	614	970	—	—	1,429	13,050
Interest on IMF borrowings	4	27	183	443	226	—	—	46	4,332
In exchange for other members' currencies									
Acquisitions to pay charges	—	3	95	896	293	224	20	545	7,211
Acquisitions to make quota payments	—	114	—	—	—	—	—	—	341
Reconstitution	175	33	—	—	—	—	—	—	1,555
Remuneration	26	165	604	1,536	999	1,055	1,220	1,826	21,158
Other	29	7	22	17	82	27	90	74	1,299
Total	**442**	**1,911**	**3,217**	**6,059**	**5,626**	**5,366**	**5,574**	**13,442**	**115,097**
Total transfers	**1,792**	**7,556**	**9,971**	**17,404**	**19,469**	**19,773**	**20,256**	**49,130**	**391,538**
General Resources Account holdings at end of period	**1,371**	**5,445**	**4,335**	**1,960**	**825**	**1,494**	**764**	**3,572**	**3,572**

[1]The first column covers the period from the creation of the SDR until the Second Amendment to the Articles of Agreement; the second column covers the period of the SDR allocations in the third basic period and the Seventh General Review quota increase; after an intervening period represented by the third column, the fourth column covers the period of the Eighth General Review quota increase and before the introduction of two-way arrangements to facilitate transactions by agreement; and the fifth column covers, except for the three most recent financial years, the period since the designation mechanism became of a precautionary nature.

levels.[31] Accordingly, SDR transfers from the GRA to participants and prescribed holders more than doubled, to SDR 13.4 billion in 1998/99 from SDR 5.6 billion in 1997/98, reflecting the substantial use of SDRs by the GRA to finance purchases and to repay IMF borrowings under the GAB and NAB. Purchases in SDRs in 1998/99 reached a record SDR 9.5 billion, including some SDR 2.3 billion in reserve tranche drawings by members availing themselves of the same-day loan facility to make quota pay-

[31]The target range adopted in February 1993 for SDR holdings of the GRA is SDR 1.0–1.5 billion.

ments.[32] Also contributing to the sharp increase in SDR transfers from the GRA to participants were remuneration payments that rose by some 50 percent, reflecting the increase in the amount of outstanding IMF credit.

Transfers of SDRs among participants and prescribed holders nearly doubled to SDR 19.4 billion in 1998/99, owing mainly to the substantial increase in transactions by agreement and to the use of the same-day SDR loan facility by members paying the reserve asset portion of their quota subscriptions.

Box 17

Designation Plan

Article XIX of the IMF's Articles of Agreement provides for a designation mechanism under which participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, when designated by the IMF, to provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in case of need, participants can use their SDRs to obtain freely usable currencies at short notice. To ensure that such use is not for the sole purpose of changing the composition of reserves, a participant wishing to sell SDRs in a transaction with designation is required to make representation to the IMF that it has a need to use its SDRs.

The designation mechanism is executed through quarterly designation plans, approved by the Executive Board, which list participants subject to designation and set maximum limits on the amounts of SDRs that they can be designated to receive during the quarter. Apart from a participant being "sufficiently strong" for designation, the amounts of designation for individual participants are determined in a manner that over time promotes equality in the "excess holdings ratios" of participants (i.e., SDR holdings above or below allocations as a proportion of participants' official gold and foreign exchange reserves).

Since September 1987, there have been no transactions with designation because desired exchanges of SDRs for currencies have been accommodated through voluntary transactions by agreement with other participants—primarily the 12 participants that have standing arrangements with the IMF to buy or sell SDRs at any time for one or more freely usable currencies, provided their SDR holdings remain within a certain range. These arrangements have helped accommodate participants' desires to both buy and sell SDRs and have facilitated the circulation of SDRs in the system.

Pattern of SDR Holdings

The large volume of SDR transactions during 1998/99, especially those associated with quota payments, resulted in a significant redistribution of SDR holdings among various groups of holders, and a sharp increase in the SDR holdings of the GRA. Transfers from the GRA to participants have been designed to return the IMF's holdings of SDRs to within the target range of SDR 1.0–1.5 billion. By the end of 1998/99, the SDR holdings of the GRA had been reduced to SDR 3.6 billion, from a peak of about SDR 7.3 billion in February 1999, but nevertheless remained well above their level at the end of 1997/98. Holdings of SDRs by participants declined correspondingly to SDR 17.4 billion at the end of 1998/99 from SDR 20.4 billion a year earlier. The SDR holdings of the industrial countries in relation to their net cumulative allocations declined to 94.6 percent at the end of 1998/99 from 107.0 percent a year earlier, while the holdings of nonindustrial countries declined to 52.5 percent of their net cumulative allocations from 69.4 percent, mainly as a result of the use of SDRs to pay the reserve asset portion of their quota increases (Appendix II, Table 13). The SDR holdings of prescribed holders increased to SDR 0.6 billion as of April 30, 1999, from SDR 0.4 billion a year earlier, representing largely the IMF's investment of SAF and ESAF resources in official SDRs maintained with the Bank for International Settlements.

[32]The same-day loan facility permits members with low levels of reserves to borrow SDRs from other members to pay the reserve asset portion of their quota subscriptions. The borrowing member immediately draws its reserve tranche position to repay the loan on the same day without incurring any interest or other charge.

CHAPTER 11

Organization, Staffing, and Budget

The IMF consists of a Board of Governors, an Executive Board, a Managing Director, a First Deputy Managing Director, two Deputy Managing Directors, and a staff of international civil servants. The institution's founding Articles of Agreement require that staff appointed to the IMF demonstrate the highest standards of efficiency and technical competence and reflect the organization's diverse membership.

Executive Board

The IMF's 24-member Executive Board, as the IMF's permanent decision-making organ, conducts the institution's day-to-day business. In 1998, the Board held 131 formal meetings, 6 seminars, and 4 informal sessions. The Executive Board carries out its work largely on the basis of papers prepared by IMF management and staff. In 1998, the Board spent 59 percent of its time on member country matters (Article IV consultations and reviews and approvals of IMF arrangements); 28 percent of its time on multilateral surveillance and policy issues (world economic outlook, developments in international capital markets, IMF financial resources, the architecture of the international monetary system, the debt situation, and issues related to IMF lending facilities and program design); and its remaining time on administrative and other matters.

Departments

The IMF staff is organized primarily into departments with regional (or area), functional, information and liaison, and support functions (Figure 8). These departments are headed by directors who report to the Managing Director.

Area Departments

Six area departments—*African, Asia and Pacific, European I, European II, Middle Eastern,* and *Western Hemisphere*—advise management and the Executive Board on economic developments and policies in countries in their region. Their staffs are responsible also for reaching understandings on arrangements for the use of IMF financial resources and review performance under IMF-supported arrangements. Together with relevant functional departments, they provide member countries with policy advice and technical assistance, and maintain contact with regional organizations and multilateral institutions in their geographic areas. Supplemented by staff in functional departments, area departments carry out much of the IMF's bilateral surveillance work through direct contacts with member countries. In addition, 75 area department staff are assigned to members as IMF resident representatives (see Box 18).

Functional and Special Services Departments

The *Fiscal Affairs Department* is responsible for activities involving public finance in member countries. It participates in area department missions on fiscal issues, reviews the fiscal content of IMF policy advice and IMF-supported adjustment programs, and provides technical assistance in public finance. It also conducts research and policy studies on fiscal issues, as well as on income distribution and poverty, social safety nets, public expenditure policy issues, and the environment.

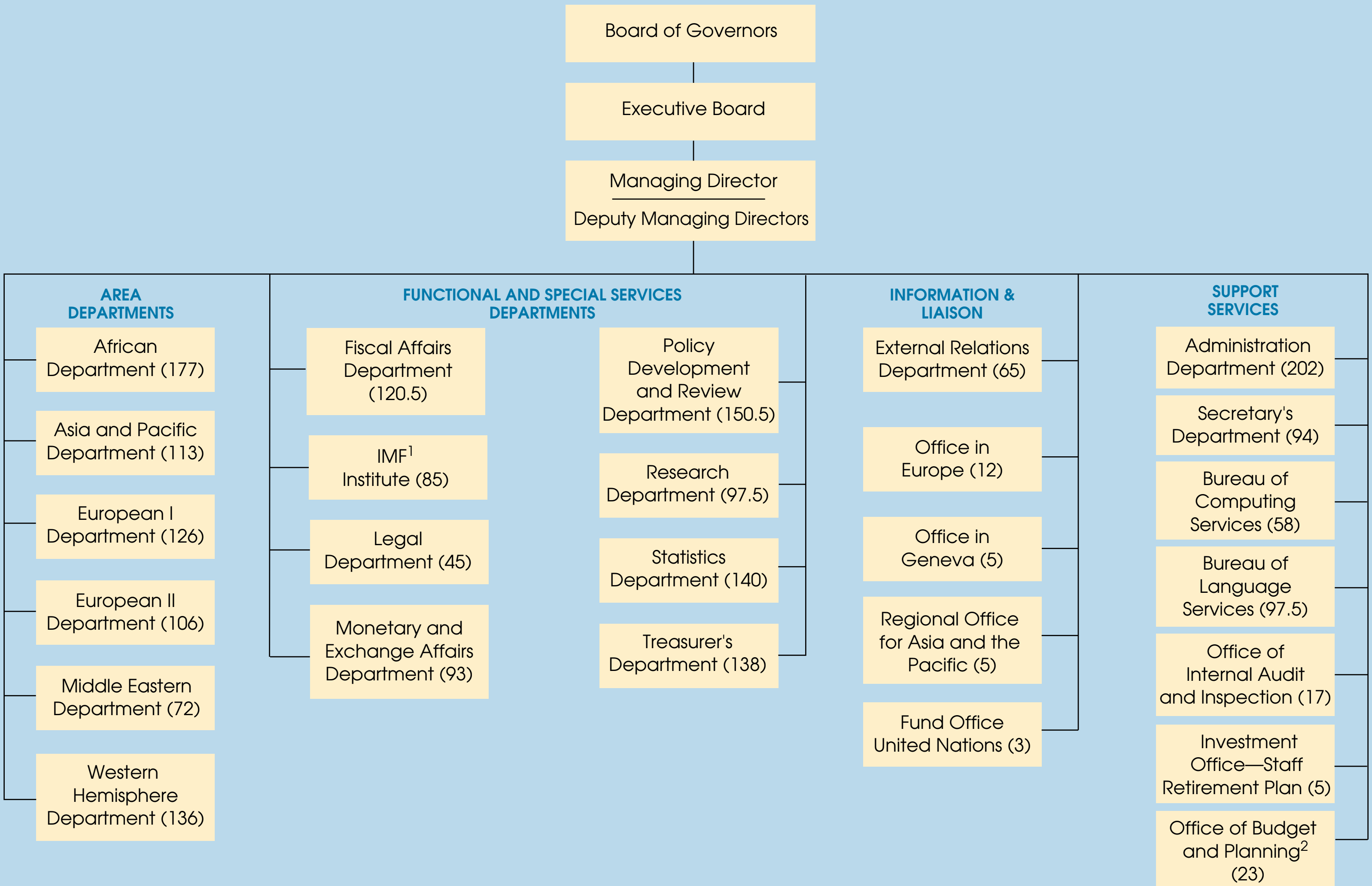
The *IMF Institute* provides training for officials of member countries—particularly developing countries—in such areas as financial programming and policy, external sector policies, balance of payments methodology, national accounts and government finance statistics, and public finance.

The *Legal Department* advises management, the Board, and the staff on the applicable rules of law. It prepares most of the decisions and other legal instruments necessary for the IMF's activities. The department serves as counsel to the IMF in litigation and arbitration cases, provides technical assistance on legislative reform, responds to inquiries from national authorities and international organizations on the laws of the IMF, and arrives at legal findings regarding IMF jurisdiction on exchange measures and restrictions.

The *Monetary and Exchange Affairs Department* provides analytical and technical support, including development and dissemination of good policies and best practices, to member countries and area depart-

Figure 8

International Monetary Fund: Chart of Organization



Note: Organization as of April 30, 1999. Parentheses indicate number of budgeted regular staff.

[1]The Institute also supports two training centers: the Joint Vienna Institute (Vienna, Austria) and the Singapore Regional Training Institute (Singapore).

[2]As part of ongoing efforts at budgetary consolidation and redeployment, the Technical Assistance Secretariat was placed under the Office of Budget and Planning as of October 1998.

ments on issues related to central banking, monetary and exchange policies and instruments, financial sector systems and soundness—including prudential regulation, supervision, and systemic restructuring—capital flows, and exchange measures and systems. In surveillance activities and requests for the use of IMF resources, the Department reviews issues related to its areas of competence and provides its expertise in policy assessment and development. It also delivers and administers technical assistance in these areas, coordinating with collaborating central banks, supervisory agencies, and other international organizations.

The *Policy Development and Review Department* traditionally plays a central role in the design and implementation of IMF financial facilities and operations. In recent years, it has spearheaded the IMF's work in the area of strengthening the architecture of the international financial system. Together with the Research Department, it takes the lead also in multilateral surveillance, policy coordination, and associated review and support activities. With area departments, the Policy Development and Review Department helps mobilize other financial resources for member countries using IMF resources, including work on debt and program financing (through the Paris Club and international banks).

The *Research Department* conducts policy analysis and research in areas relating to the IMF's work. The department plays a prominent role in developing IMF policy concerning the international monetary system and surveillance and cooperates with other departments in formulating IMF policy advice to member countries. It coordinates the semiannual World Economic Outlook exercise and prepares the annual International Capital Markets report, as well as analysis for the Group of Seven policy coordination exercise and the Executive Board's seminars on World Economic and Market Developments. The department also maintains contacts with the academic community and with other research organizations.

The *Statistics Department* maintains databases of country, regional, and global economic and financial statistics and reviews country data in support of the IMF's surveillance role. It is also responsible for developing statistical concepts in balance of payments, government finance, and monetary and financial statistics, as well as producing methodological manuals. The department provides technical assistance and training to help members develop statistical systems and produces the IMF's statistical publications. In addition, it is responsible for developing and maintaining standards for the dissemination of data by member countries.

The *Treasurer's Department* formulates the IMF's financial policies and practices; conducts and controls financial operations and transactions in the General Department, SDR Department, and Administered Accounts (including the ESAF Trust and related accounts); controls expenditures under the administrative and capital budgets; and maintains IMF accounts and financial records. The department's responsibilities also include quota reviews, IMF financing and liquidity, borrowing, investments, the IMF's income, and operational policies on the SDR.

Box 18
IMF Resident Representatives

At the end of 1998/99, the IMF had 75 resident representatives in 68 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere regions. These posts—typically filled by one staff member—enhance the provision of IMF policy advice and are often set up in conjunction with an IMF-supported adjustment program. A recent internal evaluation concluded that these representatives—who typically have exceptional access to key national policymakers—can have a major impact on the quality of IMF country work. In particular, resident representatives alert the IMF and the host country to potential policy slippages, provide on-site adjustment program support, and can play an active role in IMF outreach in member countries.

Information and Liaison

The *External Relations Department* edits, produces, and distributes the IMF's nonstatistical publications; provides information services to the press and general public; maintains contacts with nongovernmental organizations and parliamentary bodies; and manages the IMF's website (see also Appendix V).

The IMF's Offices in Asia and the Pacific, in Europe, in Geneva, and at the United Nations maintain close contacts with other international and regional institutions (see Appendix IV).

Support Services

The *Administration Department* manages recruitment, training, and career planning programs; supervises the operation of the IMF's headquarters building and leased space; provides administrative services to the organization; and administers the Joint Fund-Bank Library.

The *Secretary's Department* assists management in preparing and coordinating the work program of the Executive Board and other official bodies, including scheduling and assisting in the conduct of Board meetings. The department also manages the Annual Meetings, in cooperation with the World Bank, and is responsible for the IMF's archives, communications, and security program.

The IMF's *bureaus, offices,* and *secretariats* are responsible for computer services; translation services; auditing, evaluation, and work practices; budget mat-

Box 19
IMF Internal Evaluations

In early 1999, the IMF's Office of Internal Audit and Inspection, with the assistance of outside experts, completed a two-year review of the effectiveness and efficiency of support services in the IMF. The review assessed 13 distinct services delivered by more than 900 IMF personnel, including regular, contractual, and vendor staff:

- information services (technology, telecommunications, language, document management, and library services);
- facilities and related services (facilities management, building capital projects, travel management, and procurement services); and
- financial support and control services (accounting and financial reporting, administrative expenditure and control, budgeting, and internal audit).

The review concluded that the IMF's internal services provide quality support to the organization's "core" activities. The quality of services had been maintained despite increases in workloads that had far outpaced the minimal growth in budget resources for support services in recent years. Costs are within comparators' norms in a number of service areas, and higher in others.

The review showed that a range of opportunities for improvement exists at both institutional and departmental levels. These include promoting strategic direction setting, realigning organizational responsibilities, flattening the organizational structures, streamlining processes, increasing efficiency through greater use of technology, and improving performance monitoring. The internal review also prompted IMF management to announce a reorganization of the IMF's services and personnel functions, to take effect on July 1, 1999.

During the financial year, IMF management initiated an internal review of IMF technical assistance for consideration in 1999/2000 (see Chapter 9).

ters; technical assistance; and investments under the staff retirement plan.

Following the completion of an internal evaluation of support services (see Box 19), IMF management announced a reorganization of services in the IMF aimed at further efficiency improvements, as well as at a saving of budgetary resources in 1999/2000 and in the period ahead. The change—effective July 1, 1999—reorganizes the IMF service functions into two new departments:

- a Technology and General Services Department, made up of the Bureau of Computing Services, Bureau of Language Services, the Administrative Services Division, the Joint Library, and certain service functions of the Secretary's Department; and
- a Human Resources Department, made up of the personnel functions in the current Administration Department.

See Figure 8 for staffing by department as of April 30, 1999.

Staff

The Managing Director appoints a staff whose sole responsibility is to the IMF, whose efficiency and technical competence are to be of the "highest standards," and whose diversity—reflecting its membership—are to give "due regard to the importance of recruiting personnel on as wide a geographical basis as possible." To this end, and to provide the continuity and institutional memory necessary to maintain a good and close working relationship with member countries, the IMF's employment policy is designed to recruit and retain a corps of international civil servants interested in spending a career, or a significant part of a career, at the IMF. At the same time, a number of Directors have stressed that the IMF increasingly recognizes the value of shorter-term employment and recruitment of mid-career professionals consistent with the changing labor market and the benefit of fresh perspectives. And, in the case of a number of skills and jobs—relating mainly to technology, certain services, and highly specialized skills in economics—business considerations have called for shorter-term appointments or for outsourcing.

Meeting to discuss the IMF's human resource policy in June 1998, Executive Directors agreed that the IMF's policy had served the institution well but faced difficult challenges—particularly in light of increased work pressures, changes in the required skills mix, the need to strengthen human resource development, and an external work environment with increasingly flexible labor. While drastic changes in the overall strategy were not necessary, these elements needed attention.

Directors emphasized the importance of diversity in the IMF's staff. Although in terms of gender and nationality, diversity had improved in recent years, further progress was needed with both the representation of women, especially at senior levels, and of member countries and regions that continued to be underrepresented, especially the Middle East.

For economists, the large majority of professional IMF staff, first-rate training in macroeconomics and quantitative methods and policy experience were key requirements. Directors believed that the shifts in skill requirements that the IMF had experienced—for example, the strong demand for expertise in banking and financial sector issues—could be accommodated largely within existing training and recruitment strategies. A number of Directors stressed the need for greater movement of staff into and out of the IMF to promote skill renewal and bring new blood to the institution.

Directors cited the recent departure of a large number of economists from among the IMF's best performers, who had joined private sector financial companies. The increase in the demand for the expertise of IMF economists should be taken into account in the review of some aspects of the IMF's human resource strategy, including its compensation system, although the IMF clearly could not and should not match private sector compensation levels. Directors generally expressed concern about the serious erosion in recent years of the competitiveness of salaries at mid- and senior levels with respect to the U.S. market. They recalled that it had been agreed in the 1998 compensation discussion to review the shape of the IMF's payline and the salary comparators, jobs, and weights, given the possibility of the World Bank and the IMF adopting different pay structures in the future. (In December 1998, the World Bank adopted a new compensation system, departing from a joint IMF and Bank compensation system that had been in place since 1989.)

Concerning employment policy, several Directors expressed concern that an ad hoc application of employment policy with regard to contractual relationships and vendor arrangements may have led to unfair treatment. In a subsequent review of employment policy and practice, in January 1999, the Board stressed that employment policy must be based on the principles of fair and transparent labor practices and it endorsed the adoption of a revised employment framework to deal with inconsistencies in employment policies.

At their June 1998 meeting, Directors were concerned about the heavy work pressures in the IMF, which had been intensified by the crisis in Asia. They agreed that work pressures should be eased, which was first and foremost a matter of setting the right priorities, streamlining, and providing adequate staff and dollar resources. To help the staff cope with a work environment expected to remain demanding and fast paced, Directors supported exploring more flexible work arrangements. They also emphasized the need for a strong follow-up on an earlier report on employee health in the IMF. In addition, the Board agreed that it was vital for a knowledge-based institution to give staff sufficient recovery time and opportunities for intellectual renewal, including through more active use of sabbatical leave and secondments. Directors also supported more active encouragement of staff to spend part of their career outside the IMF to acquire additional skills and relevant experience. They favored initiatives to improve management and supervisory skills within the IMF and to enhance career development programs, and they welcomed the improved program of formal training in economics.

As of December 31, 1998, the IMF employed 671 assistant staff and 1,525 professional staff (approximately two-thirds of whom were economists). Some 428 additional positions fall into the category of "other authorized staff" (experts, consultants, Economist Program participants, and other nonregular resources). Of the IMF's 182 member countries, 123 were represented on the staff. (See Table 16 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Table 16
Nationality Distribution of Professional Staff by Region
(In percent)

Region[1]	1980	1990	1998
Africa	3.8	5.8	5.5
Asia	12.3	12.7	15.1
Japan	1.4	1.9	1.6
Other Asia	10.9	10.8	13.5
Europe	39.5	35.1	33.2
France	6.9	5.5	4.6
Germany	3.7	4.3	4.2
Italy	1.7	1.4	2.7
United Kingdom	8.2	8.0	6.6
BRO countries[2]	. . .	. . .	1.3
Other Europe	19.0	15.9	13.8
Middle East	5.4	5.5	5.7
Western Hemisphere	39.1	41.0	40.3
Canada	2.6	2.8	4.1
United States	25.9	25.9	25.3
Other Western Hemisphere	10.6	12.3	10.9
Total	**100.0**	**100.0**	**100.0**

[1]Regions are defined on the basis of the country distribution of the IMF's area departments. The European region includes countries in both the European I and European II Departments. The Middle East region includes countries in North Africa.

[2]The Baltics, Russia, and other countries of the former Soviet Union.

During 1998/99, 3,006 staff-years were used in the IMF, compared with 2,946 in 1997/98. Included in the 1998/99 total were 1,990 regular staff-years (1,988 in 1997/98), supplemented by other resources, including Economist Program staff, overtime, and contractual and other temporary staff-years for a total of 2,641 staff-years (2,592 in 1997/98); 233 staff-years for the Office of Executive Directors (230 in 1997/98); and 132 staff-years for externally financed technical assistance and other resources (123 in 1997/98).

Recruitment and Retention

Over the course of 1998, 170 new staff members joined the organization (104 economists, 28 professionals in specialized career streams, and 38 assistants)—an increase of 21 over the 149 staff members hired in 1997. Of the new hires in 1998, 63 were midcareer economists and 41 entered the Economist Pro-

Table 17
Gender Distribution of Staff by Level

Staff Level	1980 Number	1980 Percent	1990 Number	1990 Percent	1998 Number	1998 Percent
All staff						
Total (all levels)	1,444	100.0	1,774	100.0	2,196[1]	100.0
Women	676	46.8	827	46.6	1,017	46.3
Men	768	53.2	947	53.4	1,179	53.7
Support staff						
Total	613	100.0	642	100.0	671	100.0
Women	492	80.3	540	84.1	577	86.0
Men	121	19.7	102	15.9	94	14.0
Professional staff						
Total	646	100.0	897	100.0	1,238	100.0
Women	173	26.8	274	30.5	397	32.0
Men	473	73.2	623	69.5	841	68.0
Economists						
Total	362	100.0	529	100.0	788	100.0
Women	42	11.6	70	13.2	153	19.4
Men	320	88.4	459	86.8	635	80.6
Specialized career streams						
Total	284	100.0	368	100.0	450	100.0
Women	131	46.1	204	55.4	244	54.2
Men	153	53.9	164	44.6	206	45.8
Managerial staff						
Total	185	100.0	235	100.0	287	100.0
Women	11	5.9	13	5.5	43	15.0
Men	174	94.1	222	94.5	244	85.0
Economists						
Total	99	100.0	184	100.0	245	100.0
Women	4	4.0	9	4.9	27	11.0
Men	95	96.0	175	95.1	218	89.0
Specialized career streams						
Total	86	100.0	51	100.0	42	100.0
Women	7	8.1	4	7.8	16	38.1
Men	79	91.9	47	92.2	26	61.9

[1]Some 428 additional positions fall into the category of "other authorized staff" (experts, consultants, Economist Program participants, and other nonregular resources).

gram—a two-year program aimed at familiarizing "entry level" economists with the work of the IMF by placing them in two different IMF departments each for a 12-month period. Candidates for the Economist Program typically are completing a Ph.D. in macroeconomics or a related field, or have already finished their graduate studies and have one or two years' work experience. Economist Program economists who perform well during the two-year period are offered regular staff appointments.

During 1998, 162 staff separated from the organization. The separation rate of professional staff rose to 8 percent (122 staff) in 1998 from 7 percent (104 staff) in 1997, well above the long-term average of about 5 percent. The increase in turnover owed largely to a sudden and sharp rise in resignations of economists joining private sector financial firms and a larger number of retirements, including those encouraged by incentives.

Salary Structure

To recruit and retain the staff it needs, the IMF has developed a compensation and benefits system designed to be competitive, to reward performance, and to take account of the special needs of a multinational and largely expatriate staff. The IMF's staff salary structure is reviewed and, if warranted, adjusted annually on the basis of a comparison with salaries paid by selected private financial and industrial firms and public sector organizations in the United States, France, and Germany. On the basis of updated analyses of comparator salaries, the salary structure was increased by 4.3 percent in 1998/99, and the Board approved an increase of 4.1 percent for 1999/2000.

Diversity

As mentioned earlier, the Executive Board continued to emphasize staff diversity as an important asset for improving its effectiveness as an international institution. The IMF's Special Advisor on Diversity, supported by the Managing Director, designed a number of initiatives and indicators to strengthen and monitor nationality and gender diversity (Tables 16 and 17), as well as diversity management in the organization. The Special Advisor works closely with departments to identify issues and opportunities for strengthening diversity and to develop departmental diversity action plans. In 1998/99, departments continued to implement these plans, which typically include diversity initiatives in recruitment, recognition of diversity needs in staff and career development, as well as measures to help ensure grade and salary equity, orientation and mentoring programs for newcomers, measures to improve communication and increase the transparency of information, and promotion of family-friendly work arrangements. The IMF is also placing greater emphasis on people management skills in the performance assessment of supervisors and in promotion decisions—skills of particular importance in an institution with a diverse work force.

The departmental progress reports submitted to the Managing Director in 1998/99 showed significant improvements in diversity awareness and management practices. Progress had also been achieved in the recruitment, promotion, and overall representation of underrepresented staff groups and those earlier identified as having unequal career opportunities. These favorable trends were concentrated among junior level staff, but if sustained, would in time also become evident at managerial levels. Achieving satisfactory diversity of staff in an institution that emphasizes career employment is a goal that necessarily takes time to achieve.

Table 18
Estimated Cost of Major IMF Activities, Financial Years 1998–2000[1]
(In millions of U.S. dollars)

Activity	Financial Year 1998	Percent of Total	Financial Year 1999	Percent of Total	Budget Financial Year 2000	Percent of Total
Staff and management						
Surveillance	141.1	28.5	147.4	28.3	172.7	30.0
Use of IMF resources	104.3	21.1	114.3	22.0	131.4	22.8
Technical assistance	81.6	16.5	88.4	17.0	96.3	16.7
External relations	23.2	4.7	26.2	5.0	29.6	5.1
Administrative support	90.1	18.2	86.8	16.7	94.6	16.4
Subtotal	440.3	88.9	463.1	89.0	524.6	91.1
Executive Board[2]	35.4	7.1	37.4	7.2	37.1	6.4
Board of Governors[3]	19.6	4.0	20.1	3.9	14.1	2.4
Subtotal	55.0	11.1	57.5	11.0	51.2	8.9
Total	**495.3**	**100.0**	**520.6**	**100.0**	**575.8**	**100.0**

Note: Details may not add to total because of rounding.
[1]Cost estimates for financial years 1998 and 1999 are based on year-end data.
[2]The Executive Board costs include salaries and benefits of Executive Directors, Alternates, and Assistants; business and other travel; communications; building occupancy; books and printing; supplies and equipment; data processing; other miscellaneous costs of Executive Directors' offices, and the costs of staff support services provided for Executive Directors.
[3]The costs of the Board of Governors consist mainly of the travel and subsistence of Governors, the costs of staff support services provided for the Board of Governors, including the costs of the Annual Meetings, and other miscellaneous administrative services.

Administrative and Capital Budgets

The IMF's Administrative and Capital Budgets are considered, respectively, in the context of rolling three-year and five-year medium-term budget outlooks that are reviewed each year by the Executive Board. When the Board discussed the budget outlook in January 1999, Directors agreed that the past year had been marked by an unusual level of global economic uncertainty. Thus the medium-term budget outlook exercise was seen as transitional, focusing on the period immediately ahead and the work at hand.

The five-year outlook for the Capital Budget remained consistent with the strategy to continue and finalize the major building projects already approved and continue with other capital investments that would result in cost savings, or that were required to comply with building codes or to maintain existing buildings and equipment inventory. The Board approved a management proposal to transfer major multiyear software development projects from the Administrative Budget to the Capital Budget as part of the IMF's five-year Information Technology strategic plan.

Budget Outlook

At the time of the budgetary outlook discussion in January 1999, the Board recognized that prospects for the future IMF workload were complicated by the continuing risks in the world economy and the pending decisions on the precise form and shape of the new architecture of the international monetary and financial system, and the related allocation of responsibilities among international agencies and the private sector. Against this background, the budget strategy for 1999/2000 would:

- devote resources to strengthening the IMF's capacity to deal with the new and expanded tasks that had emerged over the past two years;
- continue to place the highest priority on the quality and timeliness of the IMF's work, and on the need to be prepared to face unexpected tasks;
- enhance partnerships with other organizations, notably the World Bank, to seek comparative advantages in sharing responsibilities and selecting work programs;
- address the urgent need to bring the staff's workload back to a more sustainable level;
- continue efforts to generate savings through more efficient internal procedures and organization, redeployment of staff and other resources to meet shifting priorities, investment in information technology, work practices, and implementation of efficiency reviews; and
- assess the budgetary implications of any new developments that may affect the future responsibilities and workload of the IMF.

Directors generally recognized that after a number of years of budget consolidation, additional tasks had resulted in excessive workloads and unsustainable levels of uncompensated overtime. In response, Directors saw a need to return to a more sustainable level of work-

Table 19
Administrative and Capital Budgets, Financial Years 1997–2000[1]
(Values expressed in thousands of U.S. dollars)

	Financial Year Ended April 30, 1997: Actual Expenses	Financial Year Ended April 30, 1998: Actual Expenses	Financial Year Ended April 30, 1999: Actual Expenses	Financial Year Ending April 30, 2000: Budget
Administrative Budget				
I. Personnel expenses				
Salaries	216,350	229,150	249,171	270,060
Other personnel expenses	129,550	117,213	122,039	147,925
Subtotal	345,901	346,363	371,210	417,985
II. Other expenses				
Business travel	39,302	46,831	47,128	46,940
Other travel	26,960	28,010	28,072	33,025
Communications	10,693	10,506	10,963	11,274
Building occupancy	41,899	42,877	44,927	47,450
Books and printing	8,579	9,669	9,704	12,192
Supplies and equipment	7,941	8,164	9,542	7,609
Data processing	19,735	25,765	26,018	24,600
Miscellaneous	9,924	12,930	13,560	16,276
Subtotal	165,033	184,752	189,914	199,365
III. Reimbursements	–39,368	–35,836	–40,506	–41,566
Total Administrative Budget	**471,564**	**495,279**	**520,619**	**575,784**
Less: Reimbursement for administering the SDR Department	–5,914	–6,000	–4,767	
Reimbursement for administering the SAF/ESAF	–43,788	. . .[2]	. . .[3]	
Net Administrative Budget expenses[4]	421,862	489,279	515,852	
Capital Budget				
Capital project budgets[5]	20,123	27,240	14,440	47,330
Capital project disbursements	150,512	56,150	43,903	

[1]Administrative Budget as approved by the Board for the financial year ending April 30, 2000, compared with actual expenses for the financial years ended April 30, 1997, April 30, 1998, and April 30, 1999; and Capital Budget as approved by the Board for capital projects in financial years 1997, 1998, 1999, and 2000. Due to rounding, details may not add to total.
[2]The reimbursement of $55,500 was not included in the Administrative Budget by Executive Board decision.
[3]The reimbursement of $56,180 was not included in the Administrative Budget by Executive Board decision.
[4]Net Administrative Budget expenses exclude valuation or loss on administrative currency holdings.
[5]Multiyear Capital Budgets for projects beginning in each financial year.

load and to strengthen the IMF's capacity to deal with the new and expanded tasks that had emerged over the past two years. Most Directors supported management's proposal for an increase in the authorized staffing in 1999/2000 (see below), although views differed on the size of the increase. Directors emphasized the need to achieve an efficient division of labor with other institutions in the context of implementing any work arising out of the discussions on the new global financial architecture; ensure an adequate level of resources devoted to technical assistance; and continue efforts at identifying savings from work practice reviews and new technology.

Budgets and Expenditure in 1998/99

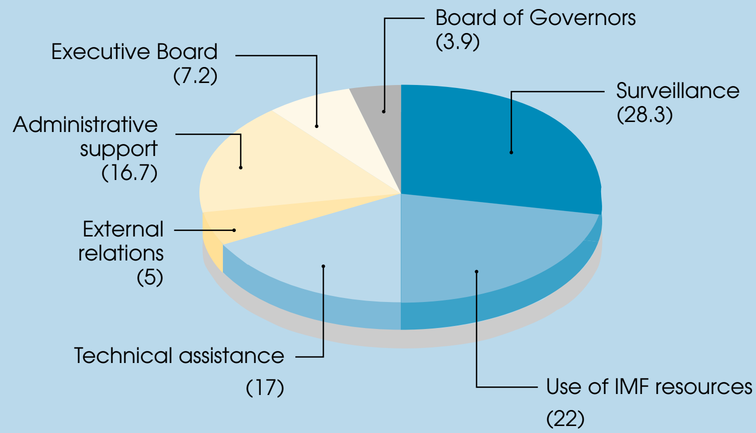
The IMF's Administrative Budget for the financial year ended April 30, 1999 was $519.5 million. For the Capital Budget, $14.4 million was approved for projects beginning in financial year 1999 ($6.5 million for building facilities and $7.9 million for EDP equipment systems). The estimated cost of major IMF activities is shown in Table 18. Actual administrative expenditures during the year totaled $520.6 million, and capital project disbursements totaled $43.9 million, including $25.3 million for major building projects (Table 19).

During 1998/99, Administrative Budget resources were used to support the IMF's work in the following proportions: surveillance and use of IMF resources, with 121 countries classified as program/intensive, an estimated 302 person-years of technical assistance (67.3 percent of expenses); external relations activities to continue making IMF policies and operations more transparent (5 percent); administrative support, where investments in technology and continuing work practice improvements continue to produce savings (16.7 percent); Board of Governors (3.9 percent); and Executive Board (7.2 percent). The distribution of estimated administrative costs by major IMF activities is shown in Figure 9.

Figure 9

Estimated Cost of Major Activities, Financial Year 1999

(As a percentage of total costs)



Note: Information is based on financial year 1999 outturn of expenditures. The cost of general supervision, training, professional development, and leave has been distributed proportionally to each of the other categories. Because of rounding, details may not add to total.

Budgets and Expenditure in 1999/2000

In support of the budget strategy, the Executive Board, in April 1999, approved an Administrative Budget for 1999/2000 of $575.8 million, representing an increase of 10.8 percent over the approved budget for the previous year, or an increase of 11.8 percent when taking into account the transfer of major software development initiatives to the Capital Budget. In addition, a capital projects budget of $47.3 million was approved for building facility improvements, data processing equipment, and major software development. The 1999/2000 Administrative Budget includes an increase of 98.5 positions in the authorized staffing level to expand the IMF's surveillance work—particularly for financial sector and related issues, including the development of codes and standards; work related to the use of IMF resources, including increased work stemming from the ESAF reviews and program implementation, the HIPC Initiative, and collaboration with other international financial institutions; technical assistance work, where the scope will be expanded in traditional and nontraditional areas, including work related to fiscal transparency, and in the IMF's training program with the establishment of the Joint Africa Institute and the Middle East Regional Training Program; and in other areas, where resources are allocated to the external relations program, the human resources strategy, an increase in the number of participants in the IMF's Economist Program, and in other areas. The increase in authorized staffing will also allow the IMF to reduce the high level of uncompensated overtime and accumulated leave balances.

The Capital Budget represents a continuation of plans for completing major building projects, replacing older facilities and electronic data processing equipment, and, as mentioned, the transfer of major multiyear software development projects from the Administrative Budget to the Capital Budget. This transfer supports the IMF's five-year information technology strategic plan to improve the way economic, financial, and administrative documents and data are collected, stored, analyzed, shared, and distributed.

The addition to the IMF headquarters building (Phase III) is now completed and staff are occupying the building. Alternatives for the PEPCO building (Phase IV), adjacent to headquarters, are being considered based on current requirements, and a proposal will be presented to the Executive Board for consideration and approval. When the Phase IV project has been completed, staff will be housed in two immediately adjacent buildings owned by the IMF, overall occupancy costs will be reduced, and the IMF's long-term strategy for housing its staff will have been realized.