

INTERNATIONAL MONETARY FUND

**Report of the Managing Director
to the International Monetary and Financial Committee
on the IMF's Policy Agenda**

April 14, 2005

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Abbreviations and Acronyms

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BSR	Biennial Surveillance Review
CCL	Contingent Credit Lines
DRC	Democratic Republic of Congo
ECCB	Eastern Caribbean Central Bank
EFF	Extended Fund Facility
EPA	Ex Post Assessments
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FCC	Forward Commitment Capacity
FSAP	Financial Sector Assessment Program
GAB	General Arrangements to Borrow
GDDS	General Data Dissemination System
GFSR	Global Financial Stability Report
GMR	Global Monitoring Report
GRA	General Resources Account
HIPC	Heavily Indebted Poor Country
IEO	Independent Evaluation Office
IFF	International Finance Facility
IFFIm	International Finance Facility for Immunization
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
JSA	Joint Staff Assessment
JSAN	Joint Staff Advisory Note
MDGs	Millennium Development Goals
METAC	Middle East Technical Assistance Center
NAB	New Arrangements to Borrow
NPV	Net Present Value
PIN	Public Information Notice
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on the Observance of Standards and Codes
SAF	Structural Adjustment Facility
SAR	Special Administrative Region
SBA	Stand-By Arrangement
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
SRF	Supplemental Reserve Facility
TAIMS	Technical Assistance Information Management System
TIM	Trade Integration Mechanism
WEO	World Economic Outlook

I. OVERVIEW

The Fund is in a period of self-assessment—evaluating and strengthening the effectiveness of its operations, and better defining its appropriate future role and priorities, so as to meet more effectively the evolving needs of its members. Most fundamentally, it has taken advantage of the opportunity provided by relatively favorable global economic conditions to launch a broad examination of its medium-term strategy. In parallel, initiatives are underway in a number of specific areas, including:

- *Efforts to enhance the effectiveness of surveillance, following the 2004 Biennial Surveillance Review;*
- *A wide-ranging review of the design and monitoring of Fund-supported programs, to improve support of country-driven adjustment and reform efforts;*
- *Further refinement and strengthening of the Fund's support for low-income members, including through improved program design, better-tailored instruments, support for enhanced donor coordination, and discussion of possible further debt relief and its financing; and*
- *Initiatives to strengthen internal management, finances, and governance in the Fund.*

1. **The global economic environment is still relatively benign, but higher oil prices and large global imbalances continue to pose challenges, and underlying vulnerabilities remain in many countries.** Addressing these risks will require strong and timely action by our membership, which the Fund will support. Collective action will also be needed to further the trade agenda and achieve a successful and suitably ambitious conclusion to the Doha Round. Moreover, the international community will need to be united in pursuit of the Millennium Development Goals (MDGs), with the *UN Summit Conference on Implementing the Millennium Declaration* in September 2005 marking an important milestone. The tragedy of the tsunami late last year reminds us that we need to continue to stand ready to help our members respond to unforeseen events. We were all encouraged by the generous international response to the disaster.

2. **In addition to supporting its members' efforts to deal with current challenges, in the past six months the Fund has examined its priorities and operations, to reinforce the strong foundations of its work.** A stocktaking is timely, as the initiatives taken as part of the reform of the international financial architecture around the turn of the millennium are now beginning to mature. Most fundamentally, we have begun a process of defining more clearly our medium-term strategic objectives, which will allow us to clarify our priorities and, if necessary, update our toolkit. At a more detailed level, we have recently re-assessed the way we do business in several key areas, and are following up with a range of reforms: most prominently in the areas of surveillance and conditionality, but also technical assistance and communications. In addition, we continue to reflect on and refine the modalities of our engagement with low-income countries. The overriding objective of these activities is to

meet the evolving needs of our members within our institutional mandate, while making efficient use of our resources.

II. MEDIUM-TERM STRATEGY

The Executive Board has taken important steps toward defining a broadly shared vision of the Fund's medium-term strategy, which will provide a basis for identifying priorities and tradeoffs in the Fund's work.

3. **The Fund is engaged in a comprehensive examination of its strategic direction, initiated in 2004, and the Executive Board met in March 2005 to consider the Fund's medium-term strategy.** The Board discussion demonstrated considerable shared understanding of the Fund's core mission, and provided many constructive ideas for refining this work. In addition, at the spring meetings, the Board and management will benefit from the views of IMFC members. Afterward, the focus will shift toward operationalizing the medium-term strategy, including identifying priorities and resource implications, potential tradeoffs among the Fund's main activities, and organizational implications, while deepening work on issues with important operational implications for the long run. The intention is to reach conclusions on the issues raised in the context of the medium-term strategy by the time of the 2005 annual meetings, as essential inputs to the budgetary framework for FY 2007-2009.

4. **The natural starting point for this exercise is the Fund's mandate under the Articles of Agreement** for promoting macroeconomic and financial stability, domestically and internationally, and international monetary cooperation to address shared challenges. By providing these global public goods, the Fund contributes to the achievement of sustained economic growth. Other international organizations also contribute to the objective of sustained growth, through the provision of different global public goods, and the cooperation and division of labor among them have a crucial impact on the achievement of their ultimate objectives.

5. **While the initial conception of the Fund's operations was fairly circumscribed, over time the Fund's concern with economic and financial policies and institutions in member countries and its interactions with other international organizations gradually became broader,** in response to the diverse needs of its expanding membership and growing trade and financial linkages among them. Under the Second Amendment of the Articles, the revised Article IV laid the basis for more systematic and comprehensive review of economic conditions and policies in member countries. More recently the pace of change has accelerated, in response to the end of the Cold War and the transition of centrally-planned to market-based economies; the particular needs of low-income countries; the vastly increased role of private capital flows in the international financial system and the gradual shift from bank lending to bonds and other instruments; and the emergence of capital-account driven crises in a number of emerging market economies, with the threat of contagion. These developments have touched upon issues at the frontiers of economic knowledge and have

required the Fund to broaden its mix of skills, its involvement with financial sectors and institutional development in member countries, and the scope of its interactions with other international organizations and the private sector. In the process, the Fund has become a more open and accountable institution and a major source of information for the general public and capital market participants.

6. **In their discussion of the medium-term strategy, Executive Directors underscored that the Fund must continue to adapt, while remaining anchored in a shared understanding of its core areas of responsibility.** Global economic developments, the changing needs of its diverse membership, and the lessons of experience all call for continuing evolution, with surveillance, technical assistance, and lending remaining the principal vehicles for carrying out the Fund's purposes. The key challenge is to maintain the Fund's effectiveness in promoting macroeconomic and financial stability as a precondition for sustained growth and poverty reduction, given the increased scope and complexity of this task, while making efficient use of the Fund's resources provided for this purpose by the membership.

7. **There is broad agreement that policies conducive to stability and sustained growth cannot be implemented effectively without appropriate underlying institutions.** The Fund has built up considerable knowledge and expertise regarding economic institutions that are important for the effective implementation of policies to promote macroeconomic and financial stability—such as the central bank, the revenue service, and the treasury—that it can draw upon in surveillance, program design, and capacity building. Many Directors acknowledged that “broad” institutions that support the rule of law—for example, those that create effective property rights for broad sections of society and govern contracts—are also critical for fostering an environment conducive to effective implementation of macroeconomic and financial policies, stability, and sustained growth. This recognition would have implications for key aspects of the Fund's activities, such as its assessment of the potential impact of macroeconomic policies and reforms in an environment of weak institutions. At the same time, nearly all Directors considered that involvement in developing broad institutions is beyond the Fund's core expertise, while the responsibility for building and developing broad institutions falls to country authorities, and they did not generally see a direct role for the Fund in this area. In addition, it was recalled that the comprehensive policy on governance issues, agreed in 1997, appropriately places the Fund's role in the perspective of macroeconomic relevance, which still remains valid.

8. **There was also general agreement on the need to increase the focus of operations on issues that matter most for macroeconomic and financial stability and thereby growth in each country, while paying attention to the spillover effects of members' policies.** This must reflect both selectivity and evenhandedness. Identification of the relevant issues will require enhancing the analytical capability of staff teams and listening to the views and wishes of the membership. Area departments have a central role in determining the appropriate focus of operational work in each member country, and the priorities and framework developed in the context of Article IV consultations should also be used to strengthen planning, prioritization, coordination, and integration of the work in core areas

such as fiscal affairs, the monetary and financial sectors, standards and codes, and technical assistance activities.

9. **The Fund's bilateral, regional, and multilateral surveillance constitute its principal means of promoting a healthy global financial system and sound economic policies and performance in member countries.** Surveillance also serves as the main instrument for crisis prevention. The Fund's priority over the medium term should be to ensure that surveillance has the greatest possible impact in encouraging all members to adopt policies and reforms that support macroeconomic and financial stability and thereby sustained growth, based *inter alia* on the timely and determined implementation of the conclusions of the 2004 Biennial Review of Surveillance (see Section III). We should benefit from and disseminate the lessons learned from the policy experiences throughout the Fund's universal membership. A number of issues regarding surveillance will need to be explored further, including how to define and measure effectiveness; how to balance tensions among transparency, candor, and the Fund's role as confidential advisor; and the resource and organizational implications.

10. **Regional and multilateral surveillance have important roles to play.** They complement bilateral surveillance by highlighting spillover effects and regional issues, and should be better integrated with bilateral surveillance. At the same time, the increasing interdependence of economies reinforces the central role that multilateral surveillance must play in meeting the Fund's responsibilities for overseeing the functioning of the international monetary system, safeguarding global financial stability, and promoting cooperative action to address global imbalances. It will be important to focus the Fund's research agenda, with particular attention to evolving priorities for surveillance and program design—including international spillovers—and ways that members can cope with volatility in global economic conditions.

11. **An additional imperative for the period ahead will be to develop further and make more effective use of the Fund's role as the key international organization capable of carrying out financial sector surveillance comprehensively.** Financial sector issues will need to be fully integrated into the Fund's work, and it will therefore be important to ensure that the Fund has the highly specialized expertise necessary for this purpose.

12. **Capital account developments and vulnerabilities constitute an increasingly important focus of the Fund's work on promoting stability.** Experience demonstrates the desirability of prudence in moving toward capital account convertibility. Moreover, capital account liberalization is currently proceeding in many countries on a bilateral or regional basis, and the principle of orderly and nondiscriminatory liberalization risks losing force. The

Fund must undertake additional work on capital account issues, to enhance its capacity for surveillance of financial systems and capital markets, which will also strengthen further its ability to provide advice to members on orderly capital account liberalization. This will complement advice to members on ways to strengthen their domestic financial systems, to gain and deepen access to international capital markets, and to reduce their vulnerability to capital account shocks and volatility. In discussing the medium-term strategy, most Directors did not wish to explore further at present the possibility (raised in 1996-97) of giving the Fund jurisdiction over capital movements, although a number of them felt that the Fund should be prepared to return to this issue at an appropriate time.

13. **The Fund's lending function continues to make an essential contribution to stability and therefore to growth in member countries.** The institution's traditional role of providing financing to help smooth the adjustment of temporary current-account imbalances remains vital for many countries, while for others the Fund's main task is to help prevent or mitigate capital account crises and contagion. Strong ownership and institutional backing remain key for the success of Fund-supported programs, while the Fund, for its part, needs to be selective in supporting only programs that put members firmly on the road to external viability. In their discussion, a number of Directors stressed the importance of specifying eventual exit strategies from Fund financial support. In the coming months there will be a need to reflect further on how the needs of members (including those who wish to signal their adherence to sound policies or benefit from a degree of insurance against potential crises) could be met through Fund arrangements, and whether new instruments or revisions to existing facilities are needed (see Section VI.B). Many Directors felt that further progress needed to be made toward reaching clearer understandings on the appropriate circumstances and scale of Fund lending, and on possible new instruments for signaling, crisis prevention, and providing insurance. Regarding the appropriate role of the Fund in helping to resolve capital account crises (see Section V), there is recognition of the role of market-based mechanisms, but also interest by a number of Directors in a clearer and more consistent role for the Fund in sovereign debt restructuring, assessment of the adequacy of the instruments available for this purpose, and an early discussion of the lending into arrears policy.

14. **The Fund is determined to play its part in efforts to reduce world poverty and achieve the Millennium Development Goals** (see Section VII). The encouragement of sound policies and institutional development within the Poverty Reduction Strategy (PRS) process provides the appropriate conceptual basis for the Fund's role in assisting low-income countries. Deliberations on a number of operational issues continue, including proposals for further debt relief. There is also interest in further examination of ways to adapt the Fund's surveillance activities, its financing instruments and their potential sources of funding, the design of PRGF-supported programs, and technical assistance to the special circumstances of such countries. Most Directors have encouraged exploration, with World Bank management and staff, of the scope for a clearer division of labor in work on low-income countries, technical assistance, and the financial sector.

15. **Fund management and the Executive Board remain committed to making the most effective use of resources entrusted to them by the membership** (see Section VIII).

We intend to uphold the highest standards of internal management, control, and governance. Efforts will continue to develop a comprehensive and modern risk management approach encompassing all aspects of the Fund's operations. This will involve *inter alia* a deepening of the budget reform process, further work on financing of the Fund, determined efforts to redeploy resources from lower-priority activities, and realization of efficiency gains. At the same time, Directors noted that the Fund's resources must be adequate to meet the institution's responsibilities. Some also emphasized the importance of embarking promptly on a discussion of innovative options for financing the Fund in the context of a possible downturn in demand for the use of Fund resources.

16. **It is essential to safeguard and reinforce the Fund's perceived legitimacy and cooperative nature, and with them, the credibility of the institution and the confidence and trust of its members.** Directors have reconfirmed the importance of adequate voice and participation by all members, and a distribution of quotas that reflects developments in the world economy (see Section IX and Box 1). Directors agreed that voice and participation issues should remain a key element of the strategy going forward, and that the period of the 13th General Review of Quotas provides an important opportunity to make progress on these issues. Given the different positions and perceptions of members in this area, it will be essential for the Fund's membership to consider closely and in a cooperative manner how best to take these issues forward. Many Directors suggested that this also include exploring prospects for pursuing various suggestions that would facilitate progress even in the absence of a general quota increase.

III. IMPROVING FUND SURVEILLANCE AND CRISIS PREVENTION

Current efforts are focused on enhancing the effectiveness of surveillance to help member countries improve the resilience and performance of their economies and minimize adverse global spillovers. The Fund is pursuing the goals emphasized by the IMFC, including:

- *strengthening analysis and advice through a tighter focus of surveillance, deeper coverage of exchange rate and financial sector issues, and better integration of analysis of debt sustainability and of regional and global spillovers into surveillance;*
- *improving the policy dialogue with member countries and communicating more effectively with the public; and*
- *systematically assessing effectiveness.*

17. **The 2004 Biennial Surveillance Review (BSR), completed in July last year, noted the centrality of surveillance to the Fund's responsibilities in the international monetary system, and endorsed a number of additional steps to enhance its effectiveness.**¹ The review noted many positive aspects of the experience with surveillance,

¹ *IMF Executive Board Reviews the Fund's Surveillance*, Public Information Notice (PIN) No. 04/95, August 24, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn0495.htm>.

including progress since the previous review in 2002, but also stressed that surveillance should evolve and adapt continuously to meet the needs of the Fund's membership, in accordance with global developments. Since that review, and the IMFC's endorsement,² the Fund has begun to implement a strategy to strengthen surveillance further. This strategy is evolutionary in nature, and designed to build on existing strengths within the present resource envelope, including by reallocating resources away from lower-priority activities. It is based on three components:

- First, strengthening the Fund's economic analysis and policy advice through the identification and pursuit of specific objectives for the immediate future. These objectives consist of sharpening the focus of Article IV consultations, ensuring a deeper treatment of exchange rate issues, enhancing financial sector surveillance, and better integrating the analysis of debt sustainability and of regional and global spillovers into surveillance.
- Second, improving the quality of the policy dialogue with member countries and the effectiveness of communication; and
- Third, a more systematic approach to assessing the effectiveness of surveillance.

A. Strengthening Economic Analysis and Policy Advice

18. **The Fund has identified specific objectives to strengthen the surveillance process, and is developing procedures and allocating additional resources to facilitate their implementation.** The new procedures put emphasis on a more effective internal review process, especially at an early stage of preparation of Article IV consultations, and on better dissemination of knowledge within the Fund, including through the promotion of best practices and enhanced internal training. Staff has also begun monitoring progress toward these objectives through systematic collection of feedback from the review process and from the Board. Specific steps being taken to strengthen surveillance in the ways identified in the BSR include:

- **Sharpening the focus:** As emphasized in the medium-term strategy discussions, the range of issues relevant to the Fund's goal of promoting macroeconomic stability has become very wide. The Executive Board has stressed that the Fund must ensure that coverage is adapted to country-specific circumstances, and that selectivity is exercised in the choice of topics, based on macroeconomic relevance. In response, systematic efforts are underway to sharpen the focus of surveillance through improved coordination between functional and area departments to identify key issues for discussion in individual Article IV consultations. Staff is also being encouraged to exchange views with members to define priority topics for consultations at an early stage, and to make greater use of information from outside sources, such as other multilateral agencies. Formal requirements relating to the coverage of Article IV consultations are being streamlined.

² *Communiqué of the International Monetary and Financial Committee (IMFC) of the Board of Governors of the International Monetary Fund*, October 2, 2004, <http://www.imf.org/external/np/cm/2004/100204.htm>.

- **Deepening the discussion of exchange rate issues:** Exchange rate issues are being given greater prominence in Article IV discussions, based on a more thorough analysis of competitiveness and the de facto exchange rate regime.³ While no single exchange rate regime is appropriate for all countries or for all circumstances, a thorough discussion of exchange rate issues—including consideration of a variety of options and, crucially, of the consistency of policies with the chosen regime—is central to surveillance. The Executive Board has held a seminar on operational aspects of moving toward greater exchange rate flexibility,⁴ and staff is preparing additional outreach and operational advice. A broader research effort is also underway to refine estimates of equilibrium exchange rates, and a variety of staff training initiatives are under development. Finally, the treatment of exchange rate issues has been cast as a key focus of the strengthened internal review process.
- **Enhancing financial sector surveillance:** A sound financial system is increasingly recognized as a precondition for the maintenance of macroeconomic stability. The BSR identified recent improvements in the coverage of the financial sector in surveillance, but also found that this was not yet on a par with coverage of other main areas. A pilot project is now underway in twelve countries to test modalities for enhanced coverage of financial sector issues in Article IV consultations. Additional resources are to be devoted to monitoring financial systems, particularly in area departments, and financial sector experts are increasingly participating in Article IV missions. We are also looking at ways in which the financial sector work of specialized functional departments can be integrated more closely with surveillance activities of area departments. The staff's knowledge base is being broadened through expanded training and seminar activities, and a number of relevant Executive Board seminars have been held.⁵ A coordinated compilation exercise is underway to gather financial soundness indicators for a sample of 62 countries.⁶ A

³ For recent examples of analyses of competitiveness, see *Trinidad and Tobago: Selected Issues*, IMF Country Report No. 05/6, January 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0506.pdf>; *Ukraine: Selected Issues*, IMF Country Report No. 05/20, January 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0520.pdf>; *Algeria: Selected Issues*, IMF Country Report No. 05/52, February 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0552.pdf>; *Republic of Moldova: Selected Issues*, IMF Country Report No. 05/54, February 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0554.pdf>; and *Slovak Republic: Selected Issues and Statistical Appendix*, IMF Country Report No. 05/72, March 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0572.pdf>.

⁴ *IMF Executive Board Discusses "Fixed to Float: Operational Aspects of Moving Toward Exchange Rate Flexibility,"* Public Information Notice (PIN) No. 04/141, December 30, 2004, Corrected: 1/12/05, <http://www.imf.org/external/np/sec/pn/2004/pn04141.htm>.

⁵ *IMF Executive Board Discusses Financial Sector Regulation: Issues and Gaps*, Public Information Notice (PIN) No. 04/131, November 22, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn04131.htm>; *IMF Executive Board Discusses Staff Paper on Monetary Policy Implementation*, Public Information Notice (PIN) No. 05/15, February 7, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0515.htm>; and *Approaches to a Regulatory Framework for Formal and Informal Remittance Systems - Experiences and Lessons (2/18/05)*; Public Information Notice (forthcoming).

⁶ *IMF Executive Board Discusses Financial Soundness Indicators*, Public Information Notice (PIN) No. 03/71, June 13, 2003, <http://www.imf.org/external/np/sec/pn/2003/pn0371.htm>.

Board review of the Financial Sector Assessment Program (FSAP), based on a joint IMF/World Bank paper, noted the continuing success of this voluntary program, and the fact that about two-thirds of the membership have participated or requested participation.⁷ Many Directors encouraged systemically important countries that have not requested an initial FSAP to do so. The review also endorsed a sharpened definition of FSAP updates and welcomed steps to strengthen follow-up further, increase research and coverage of development issues in low-income countries, and undertake regional financial sector work. Directors noted that improved prioritization and streamlining have resulted in assessments that are better tailored to country circumstances, freeing up resources for other work in financial sector surveillance such as FSAP updates and participation in Article IV missions. They observed, however, that more needs to be done to ensure that issues identified in FSAPs are followed up through Fund surveillance. The forthcoming Independent Evaluation Office (IEO) review of the FSAP is expected to provide an opportunity to make a more in-depth assessment of the progress so far and of the program's overall effectiveness.

- **Improving analysis of debt sustainability and balance sheet vulnerabilities:** Staff is further reviewing the debt sustainability framework to facilitate more focused and accurate assessments of sustainability, and to integrate these analyses better into policy discussions. Efforts are being directed at tailoring scenarios better to identify the vulnerabilities of individual countries, including through more intensive internal review at an earlier stage; streamlining presentation; and laying a basis for more systematic ex post evaluation. A series of internal training initiatives is under preparation, focusing on data requirements and assessing balance sheet vulnerabilities in selected countries. The Fund and Bank also recently launched an online database of external debt statistics for 41 countries, to provide more timely data in a format that enables cross-country comparison.⁸ Analyses of balance sheet vulnerabilities are increasingly being incorporated into Article IV consultations and other surveillance exercises.⁹ Further Executive Board seminars on the balance sheet approach have taken place,¹⁰ and future seminars are planned on liability management and the contingent claims approach to the sovereign balance sheet.

⁷ *IMF Executive Board Reviews Experience with the Financial Sector Assessment Program*, Public Information Notice (PIN) No. 05/47, April 6, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0547.htm>.

⁸ *World Bank and IMF Launch Quarterly Online External Debt Database*, Press Release No. 04/241, November 18, 2004, <http://www.imf.org/external/np/sec/pr/2004/pr04241.htm>.

⁹ Recent examples include *Australia: 2004 Article IV Consultation—Staff Report*, in IMF Country Report No. 04/353, November 2004, <http://www.imf.org/external/pubs/ft/scr/2004/cr04353.pdf>; *Republic of Estonia: Selected Issues*, IMF Country Report No. 04/357, November 2004, <http://www.imf.org/external/pubs/ft/scr/2004/cr04357.pdf>; and *Ukraine: Selected Issues*, IMF Country Report No. 05/20, January 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0520.pdf>.

¹⁰ For example, *IMF Executive Board Discusses Balance Sheet Approach to Analysis of Debt-Related Vulnerabilities in Emerging Markets*, Public Information Notice (PIN) No. 05/36, March 22, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0536.htm>.

- **Better integrating bilateral, regional, and multilateral surveillance:** Fund surveillance is an ideal vehicle to analyze global and regional spillovers, and greater integration of bilateral, regional, and multilateral surveillance was identified as a priority in the biennial surveillance review. Staff has begun to provide the Board with periodic regional overviews, beginning with an informal Board seminar on the African Regional Outlook. Forthcoming Board seminars include a regional assessment of the financial sector in Central American countries. Area departments are increasingly incorporating multilateral and regional perspectives in Article IV consultations,¹¹ and research continues on specific developments and key policy issues in different regions.¹² The Executive Board will soon consider a staff paper on the formalization of the Fund's ongoing surveillance in the Central African Economic and Monetary Community, the Eastern Caribbean Currency Union, and the West African Economic and Monetary Union.

B. Improving the Policy Dialogue and Strengthening Communication

19. **A close and frank dialogue between the Fund and its members is an essential ingredient of effective surveillance.** A tighter focus on issues of the greatest importance to member countries will itself go a long way toward improving the quality of the policy dialogue. Other steps the Fund is taking include:

- **Making better use of cross-country experience,** to support policy recommendations in surveillance work. Research efforts are increasingly drawing on regional and global perspectives to ground policy advice more firmly in country experience. The closer integration of regional topics will further assist the Fund in tailoring its advice to key local issues.
- **Enhanced efforts to maintain continuity in the policy dialogue with the authorities between Article IV consultations,** and exploring different modalities to promote better communication with senior policymakers—although resource

¹¹ Recent examples of consultations that bring a regional or multilateral perspective to surveillance include *Cambodia: Selected Issues*, IMF Country Report No. 04/331, October 2004, <http://www.imf.org/external/pubs/ft/scr/2004/cr04331.pdf>; *Eastern Caribbean Currency Union: Selected Issues*, IMF Country Report No. 04/335, October 2004, <http://www.imf.org/external/pubs/ft/scr/2004/cr04335.pdf>; and *United Kingdom: 2004 Article IV Consultation—Staff Report*, in IMF Country Report No. 05/80, March 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0580.pdf>.

¹² Some recent examples include *Reforming the Stability and Growth Pact*, Policy Discussion Paper No. 05/2, February 1, 2005, <http://www.imf.org/external/pubs/ft/pdp/2005/pdp02.pdf>; *Regional Trade Arrangements in Africa: Past Performance and the Way Forward*, Working Paper No. 05/36, February 1, 2005, <http://www.imf.org/external/pubs/ft/wp/2005/wp0536.pdf>; and *Stabilization and Reform in Latin America: A Macroeconomic Perspective on the Experience Since the Early 1990s*, Occasional Paper No. 238, February 8, 2005, <http://www.imf.org/external/pubs/cat/longres.cfm?sk=17325.0>.

constraints have placed limits on the extent of these efforts. High-level seminars have been held with key policymakers on the policy challenges facing certain regions.¹³

- **More effective communication.** A number of initiatives are ongoing to enhance our communication efforts (see Section VIII). In addition, a review of the Fund's transparency policy is planned for mid-2005, which will provide additional insight into how the Fund might continue to address effectively the tension between communication efforts and its traditional role as confidential advisor to member countries.

C. Assessing the Effectiveness of Surveillance

20. **A key priority instituted since the BSR is assessing the effectiveness of surveillance, including both the appropriateness and impact of previous Fund advice.** Better monitoring of effectiveness should cast light on which practices yield the best results and help ensure greater overall consistency in the quality of surveillance.

- Staff continues to provide brief assessments in staff reports of authorities' responses to the key policy challenges identified in previous consultations and to experiment with different ways of encouraging greater discussions of effectiveness in Article IV consultations.
- Staff has begun to develop a more systematic approach to assessing effectiveness, including attempting to identify appropriate indicators, sources of evidence, and procedures. This work highlights the difficulty of devising appropriate methods, and it is expected that the development and implementation of an assessment system will take place incrementally over time. The specific objectives identified in the 2004 BSR will be used to monitor more closely developments in the quality of surveillance, and as an input into the next biennial surveillance review.

D. Recent Developments

21. **Fund surveillance continues to evolve to meet the changing needs of member countries, covering a broad range of topical issues within the Fund's mandate:**

- **World Economic Outlook and Global Financial Stability Reports:** The World Economic Outlook and the Global Financial Stability Report remain the Fund's main

¹³ See *High-Level Conference on Financial Sector Issues in Emerging Markets in Asia: Role of the International Monetary Fund, October 11-12, 2004*, Press Release No. 04/215, October 13, 2004, <http://www.imf.org/external/np/sec/pr/2004/pr04215.htm>; and "The Eastern Caribbean region at a crossroads," *IMF Survey*, vol. 34, no. 2, February 7, 2005, pp. 26-27, <http://www.imf.org/external/pubs/ft/survey/2005/020705.pdf>.

vehicles for multilateral surveillance.¹⁴ The World Economic Outlook (WEO) has underscored the risk of delay in addressing the existing large global imbalances. In addition, the latest WEO examined the outlook for and implications of high oil prices, the economic impact of the Indian Ocean tsunamis, and discussed several special topics of growing relevance to the global financial system. These include workers' remittances, volatility in output growth, and financial globalization. The Global Financial Stability Report (GFSR) continues its coverage of key risks to the international financial system with in-depth studies that highlight the transfer, reallocation, and management of financial risks across different sectors, with a recent focus on the flow of risk to the household sector, and market solutions and public policies that enable households to better manage changes to their risk profile.

- **Oil market developments:** Higher oil prices have necessitated a closer coverage of oil market developments in surveillance. Article IV consultations with both net oil-exporting and oil-importing countries have examined the impact of higher oil prices on inflationary pressures and medium-term fiscal positions. Staff is also working with data providers (e.g. through the Joint Oil Data Initiative) to support efforts to improve the quality and transparency of oil market data. The Board held a seminar on oil market developments and discussed the likely causes and impacts of recent price increases, prospects for investment in the oil sector, Fund policy advice, and data issues.¹⁵ Directors noted the desirability of stability in oil markets for global prosperity, and underscored the importance of closer dialogue between consumers and producers. Directors recognized that investment in productive capacity is affected by a number of factors, but agreed that members should strive to remove undue obstacles to investment. The importance of energy efficiency and conservation was also noted. Directors supported the general principles underlying Fund advice to countries on policy responses to higher oil prices.
- **Trade issues:** A review of Fund work on trade examined trade-related challenges facing Fund members, and associated Fund policy advice.¹⁶ The Executive Board underlined the importance of securing an ambitious and timely outcome to the ongoing Doha round of trade negotiations. Directors encouraged selectivity in addressing trade matters in surveillance, but also noted the need for attention to trade in services, to the spillover effects of trade policies (including in large middle-income countries), and to trade-related macroeconomic vulnerabilities. Regional trade agreements are increasingly prominent and can be beneficial if appropriately

¹⁴ *World Economic Outlook: Globalization and External Imbalances*, April 2005, <http://www.imf.org/external/pubs/ft/weo/2005/01/index.htm>, and *Global Financial Stability Report: Market Developments and Issues*, April 2005, <http://www.imf.org/external/pubs/ft/GFSR/2005/01/index.htm>.

¹⁵ *IMF Executive Board Holds Seminar on Oil Market Developments and Issues*, Public Information Notice (PIN) No. 05/48, April 7, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0548.htm>.

¹⁶ *IMF Executive Board Reviews Fund's Work on International Trade*, Public Information Notice (PIN) No. 05/49, April 11, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0549.htm>.

structured. More systematic discussions of trade policies at the regional level could be a helpful complement to bilateral surveillance. Also in the area of trade, the Fund has discussed, in the course of Article IV consultation discussions, the economic implications of the recent expiry of quotas under the Agreement on Textiles and Clothing with most of the countries that may be affected.

- **Fiscal policy issues:** Last year's Board discussion on public investment and fiscal policy emphasized that infrastructure gaps may be an impediment to growth, and suggested exploring additional options for accommodating public investment in infrastructure while safeguarding macroeconomic stability and debt sustainability. Staff have now completed eight pilot studies that refine the analytical framework for assessing public investment, review the treatment of public enterprises in fiscal accounts, analyze the conditions under which public-private partnerships can be expected to enhance efficiency, and review fiscal risks and other issues that arise in the context of government guarantees. The Executive Board will take stock of these studies after the spring meetings, and a series of outreach seminars will be held, beginning with a seminar for Latin American countries. In addition, as part of the follow-up to the IEO recommendations on fiscal adjustment, several recent Article IV reports have given particular prominence to structural fiscal issues.¹⁷ A study of large fiscal adjustments was recently completed for the information of Executive Directors. Additional fiscal studies are also underway, including on pro-cyclicality of fiscal policies, fiscal responsibility laws, the efficiency of public infrastructure spending, and structural fiscal issues in EU accession countries.
- **Data reporting:** As part of the implementation of the January 2004 Board decision¹⁸ to strengthen the effectiveness of Article VIII, Section 5, which relates to the provision of information by members to the Fund, as of December 31, 2004 members were to provide to the Fund data specified in the annex to the decision for periods commencing after this date. These changes bring the legal framework of the Fund more in line with contemporary data needs, by expanding the list of information that member countries are required to provide. Operational guidance has been prepared to assist staff in implementing this decision, in the context of the overall framework for data provision to the Fund.

¹⁷ Recent examples include *Lao People's Democratic Republic: 2004 Article IV Consultation—Staff Report*, in IMF Country Report No. 05/9, January 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr0509.pdf>, and *Republic of Yemen: 2005 Article IV Consultation—Staff Report*, in IMF Country Report No. 05/111, March 23, 2005, <http://www.imf.org/external/pubs/ft/scr/2005/cr05111.pdf>.

¹⁸ See *Selected Decisions and Selected Documents of the IMF, Twenty-Eighth Issue*, as updated as of June 30, 2004, [http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13183-\(04/10\)](http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13183-(04/10)).

IV. CAPACITY BUILDING

Capacity building remains a vital complement to Fund policy advice, facilitating the implementation of better policies and governance practices. Recent efforts have focused on:

- *Reviewing and enhancing the effectiveness of our delivery of technical assistance;*
- *Leveraging our limited resources through better cooperation with other providers of technical assistance and by mobilizing external funding;*
- *Expanding other capacity-building efforts in priority areas.*

22. **To maximize the impact of its limited resources, the Fund continues to seek to make its technical assistance more effective, while working with other partners to meet growing demands.** The Fund's efforts include:

- **Reviewing and enhancing effectiveness:** The Fund continues to make progress in this area. Departments providing technical assistance have strengthened strategic planning through the preparation of country strategy papers; the Technical Assistance Evaluation Program provides an ongoing framework for evaluations; and a technical assistance information management system (TAIMS) is being developed to enhance the Fund's ability to monitor technical assistance delivery. In February, the Board reviewed an IEO evaluation of the Fund's technical assistance program, and recommended a more medium-term, country-centered perspective for setting strategy and priorities, strengthened tracking and evaluation of results, and enhanced country ownership.¹⁹ Staff is examining ways to implement these recommendations and is estimating their budgetary costs. A seminar examining capacity-building efforts in post-conflict situations was also held by the Board.²⁰ Finally, a fifth regional technical assistance center, located in Beirut, began operations in October 2004.²¹ Staff is preparing an overall review of the effectiveness of regional technical assistance centers as a delivery modality, which is expected to be discussed by the Executive Board shortly.
- **Seeking additional resources:** The Fund continues to support efforts to harmonize and coordinate the use of donor funds. Increasing third-party financing has provided a welcome enhancement to the Fund's technical assistance program, although based on current commitments increases in future years are expected to be modest.

¹⁹ *Independent Evaluation Office Announces Release of Report on the Evaluation of Technical Assistance Provided by the Fund*, Press Release No. 05/01, March 2, 2005, <http://www.imf.org/External/NP/ieo/2005/pr/eng/pr0501.htm>.

²⁰ *IMF Executive Board Discusses Staff Papers on Rebuilding Fiscal Institutions in Post-Conflict Countries*, Public Information Notice (PIN) No. 05/45, March 29, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0545.htm>.

²¹ *Inauguration of the Middle East Technical Assistance Center (METAC)*, Press Release No. 04/224, October 25, 2004, <http://www.imf.org/external/np/sec/pr/2004/pr04224.htm>.

23. **The preparation and assessment of standards and codes have been an important component of the strategy to strengthen the international financial system, and have absorbed significant Fund resources in recent years.** This initiative was designed to (i) strengthen member countries' economic institutions, including by improving transparency, enhancing capacity, and promoting good governance; (ii) inform Fund surveillance and World Bank Country Assistance Strategies; and (iii) provide information that would allow market participants to distinguish better among investment opportunities. As of end-March 2005, almost two thirds of member countries have undertaken assessments, and over 600 ROSC modules have been completed. Five years since its start, it is time to take stock of the initiative and reassess its strategic direction. Fund and Bank staff are preparing a review, which is expected to be discussed by the Executive Boards of the two institutions in mid-2005. The review will seek to assess the effectiveness of the standards and codes initiative in achieving its objectives, and consider whether and how the initiative should be modified, taking full account of cost constraints.

24. **Capacity-building efforts have been expanded and strengthened in other priority areas.** In addition to its increasingly important role in surveillance, the Financial Sector Assessment Program supports members' efforts to build better institutions in the financial sector. The coverage of development issues in FSAPs has been expanded, enabling us to identify priority areas in the financial sector more clearly. Also in the financial sector, follow-up work to the Board seminar on moving from fixed to floating exchange rates has begun, dealing with operational aspects of introducing greater exchange rate flexibility.²² The first phase of the assessment of offshore financial sectors is now virtually complete,²³ and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) assessments are being complemented with expanded delivery of technical assistance for the areas covered under the revised standard, although this expansion has been hampered because expected donor funding largely did not materialize. In the area of data quality and governance practices, staff published for comments a *Draft Guide on Resource Revenue Transparency*,²⁴ complementing the Extractive Industries Transparency Initiative. This guide seeks to help countries address the governance and transparency issues that arise in managing resource revenues from extractive industries such as oil, gas, and mining.

²² *IMF Executive Board Discusses "Fixed to Float: Operational Aspects of Moving Toward Exchange Rate Flexibility,"* Public Information Notice (PIN) No. 04/141, December 30, 2004, Corrected: 1/12/05, <http://www.imf.org/external/np/sec/pn/2004/pn04141.htm>.

²³ *Offshore Financial Centers: The Assessment Program—A Progress Report*, February 25, 2004, <http://www.imf.org/external/np/pp/eng/2005/022505.htm>.

²⁴ *IMF Opens Public Comment Period on Draft Guide on Resource Revenue Transparency*, Press Release No. 04/274, December 21, 2004, <http://www.imf.org/external/np/sec/pr/2004/pr04274.htm>.

V. CRISIS RESOLUTION

The Fund continues to work with other concerned parties to promote mechanisms aimed at the orderly resolution of crises.

25. **The Fund continues to promote progress on crisis resolution initiatives.** Recent efforts include:

- **Monitoring progress in the adoption of collective action clauses and in recent initiatives** aimed at improving engagement between sovereign debtors and their creditors in the context of debt restructuring. A separate report provides an update on improvements in crisis resolution mechanisms under the existing legal framework.²⁵ It reviews developments in the adoption of collective action clauses, provides a commentary on draft Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Market Countries, reports on progress in recent cases of restructuring of sovereign debt to private creditors and in the restructuring of official bilateral debt under the Paris Club's Evian approach, and provides a brief update on issues relating to litigation against sovereign debtors. Several of the recent restructuring cases involve the application of the Fund's policy on lending into arrears, and the Fund will continue to monitor the implementation of this policy.
- **Issues in sovereign debt restructuring.** The Board will shortly examine the determinants of and prospects for market access by countries emerging from crises, including when this has involved a restructuring of sovereign debt, and will later discuss the impact of sovereign debt restructuring on the banking system.

VI. USE OF FUND RESOURCES AND OTHER INSTRUMENTS

We are conducting a broad-ranging review of Fund-supported programs and their financing, to better support country-driven adjustment and reform efforts under a wide range of circumstances:

- *We have completed the 2004-05 conditionality review, which encompassed reviews of the design of Fund-supported programs and of the application of the 2002 Guidelines on Conditionality. This has given us valuable insights that will inform our operations, as well as setting a broad agenda for further work.*
- *We are reviewing our policies on access, maturities, and charges.*

A. Conditionality

26. **The 2004-05 conditionality review has been wide-ranging.** During the course of the 2000-02 conditionality review, Directors requested that the next conditionality review

²⁵ *Progress Report on Crisis Resolution (4/12/05).*

also address broader issues of program design.²⁶ In response, the most recent conditionality review has consisted of two parts, one focusing on the design of Fund-supported programs, and the second examining the initial experience related to the application of the 2002 conditionality guidelines.

Design of Fund-Supported Programs

27. The first part of the 2004-05 conditionality review examined key features of Fund-supported programs over the period 1995-2000:²⁷

- **Objectives and outcomes:** External viability remains a core objective. For programs supported under the General Resources Account (GRA), targeted external adjustment has been broadly in line with medium-term debt sustainability, and Fund support seems to have mitigated the impact of adjustment on growth. But in a number of cases, especially but not exclusively those of capital account crises, external adjustment has been sharper and larger than needed to stabilize external debt levels. Directors encouraged staff to undertake further analysis of the optimal mix between financing and adjustment as well as of the determinants of capital flows and of the catalytic effects of Fund-supported programs. For ESAF/PRGF-supported programs, programmed improvements in current account balances have, on average, been smaller than those required to stabilize external debt ratios, even at the lower levels prevailing after debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative; and actual improvements have tended to be smaller than programmed. Directors called for further reflection on how to correct this phenomenon. Program outcomes for growth and inflation have been broadly favorable. Directors stressed that the design of programs in low-income countries should be based on a full consideration of the implications of policies for poverty reduction.
- **Analytical framework:** Directors welcomed the fact that, in advising national authorities, Fund country teams normally draw on a variety of models and methods for policy formulation and temper them with economic judgment. The Fund's financial programming framework provides a useful consistency check on policies. This eclectic approach to policy formulation has generally worked well in practice. However, medium-term growth projections have been overoptimistic, which risks undermining the reliability of debt sustainability assessments and the credibility of programs. More analytical "reality checks" on growth projections, more systematic comparisons with forecasts by other analysts, and greater use of cross-country analysis were recommended.

²⁶ *IMF Board Discusses Modalities of Conditionality*, Public Information Notice (PIN) No. 02/26, March 8, 2002, <http://www.imf.org/external/np/sec/pn/2002/pn0226.htm>.

²⁷ *IMF Executive Board Discusses Program Design*, Public Information Notice (PIN) No. 05/16, February 8, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0516.htm>.

- **Exchange rate policies:** Coherence between the exchange rate regime and macroeconomic and structural policies is critical, and Directors emphasized that the Fund should avoid supporting policy mixes that do not sufficiently underpin the exchange rate regime. Disinflation has been achieved equally successfully under fixed or flexible exchange rate strategies, and successful disinflation has depended instead mainly on whether the targeted fiscal adjustment has been achieved. At the same time, countries with more flexible exchange rates have tended to achieve external adjustment at lower output cost.
- **Monetary policies:** Targeted monetary policies have been broadly aligned with program objectives, and there is no evidence that monetary programs have been set excessively tight.
- **Fiscal policies:** Program practice in fiscal policy has been significantly more diverse and has matched overall economic objectives more systematically than commonly assumed. Fiscal slippages have often occurred, especially in the outer years of a program. Directors stressed the need for greater focus on fiscal consolidation in program design, with emphasis on high-quality fiscal measures that could be politically feasible and sustainable. Because the largest errors in projecting public debt dynamics stem from below-the-line items, attention should also be paid to contingent liabilities, including from financial sector restructuring costs. Fiscal consolidation has generally contributed to improvements in the external current account balance, while not being associated with lower output growth, suggesting that confidence effects play a significant role. Directors underscored the importance in the context of the PRGF of program elements that help to reduce poverty and of analysis of the distributional impact of policies.
- **Structural policies:** Structural reforms are often key to buttress adjustment efforts by enhancing efficiency and eliminating structural distortions that inhibit long-term growth, and to reduce vulnerabilities to financial crises. The study found broad alignment between structural measures and the objectives of Fund-supported programs. Measures intended to underpin demand management seem to have contributed to sustained fiscal adjustment, and measures geared toward enhancing efficiency have been associated with better growth outcomes.
- **To ensure that the lessons learnt during this review are made operational,** a number of internal seminars and training initiatives are planned to raise awareness of the issues within the Fund, including disseminating information on best practices in some specific aspects, such as forecasting growth. These “inreach” efforts will be complemented by significant efforts at external outreach to stimulate a wider debate on some key issues, such as the catalytic role of Fund support, the “size” of Fund support, and the use of grants versus loans.
- **More generally, work on program design needs to continue in five broad areas,** in addition to those discussed in the review of the conditionality guidelines (see

below): capital flows and capital account crises, including the role of the financial sector; low-income country issues; growth and structural reforms; fiscal issues; and precautionary arrangements. In most of these areas, as described elsewhere in this paper, work is already underway.

Review of the 2002 Guidelines on Conditionality

28. **We have examined the initial experience with the application of the 2002 Conditionality Guidelines.**²⁸ These guidelines emphasize national ownership of policies, parsimony in conditions, tailoring of policies to member circumstances, coordination with other multilateral institutions, and clarity in the specification of conditions, with a view to improving the implementation and effectiveness of Fund-supported programs. Although it is too soon to draw definitive conclusions, the review highlighted a number of preliminary findings focusing on structural conditionality and on processes of program development. There is evidence that considerable progress has occurred in streamlining the breadth of coverage (though not the numbers) of structural conditions and in clearly identifying program-related conditions, and that the staff is making serious efforts to implement good processes. There are also some encouraging signs of stronger program implementation, in the form of a decline in permanent program interruptions—although the waiver rate for structural performance criteria has not declined. The shift of conditionality away from growth- and efficiency-related structural reforms was considered a sign of streamlining, but will need to be monitored and the implications studied when program outcomes are known. Effective Bank-Fund collaboration remains crucial in this connection. To aid in focusing conditionality on critical measures, Directors underscored the importance of focusing on the linkages between program goals and conditions, and of specifying and explaining in staff reports the strategies underlying conditionality and the basis for deeming measures to be critical. There also remains room for improvement in scrutinizing the level of detail of conditions, with a view to avoiding unwelcome micromanagement; in ensuring that timetables for implementation are realistic; and, in the area of process, in proactive development of policy options by the staff. The review also highlighted the difficulty of gauging ownership and, relatedly, of determining the appropriate use of prior actions, which serve as a screening device but which the review found do not improve subsequent program implementation to the Fund-wide average. The IEO's evaluation project on structural conditionality in Fund-supported programs, scheduled for early 2006, is expected to shed further light on these issues. However, Directors agreed that a more comprehensive assessment of the appropriateness of the new guidelines would have to await the availability of data on program outcomes, both in the short and medium term, and instructed staff to return to this issue in 2008. The staff will explore how it can help the Board monitor the application of the guidelines in the interim.

²⁸ *Review of the 2002 Conditionality Guidelines* (3/4/05), *Review of the 2002 Conditionality Guidelines - Selected Issues* (3/4/05), and Public Information Notice (forthcoming).

Ex Post Assessments

29. **The adequacy of program design is also examined as part of ex post assessments.** Ex post assessments have proven to be a useful vehicle for distilling lessons from experience, for both program design and implementation. The first ex post assessments (EPAs) were conducted in 2003 as part of the Fund's response to the IEO's evaluation of prolonged use of Fund resources, and a total of 26 EPAs have been conducted so far, including nine since the 2004 annual meetings (for Benin, Malawi, Guinea Bissau, Armenia, Vietnam, Kyrgyz Republic, Albania, Uruguay, and Bolivia).²⁹ The lessons drawn from EPAs are often widely applicable. For example, a key lesson from the ex post assessment of the PRGF arrangements with Vietnam is the importance of allowing sufficient time for the institutional changes that underpin structural reforms. A comprehensive review of the experience with ex post assessments will take place later this year. The forthcoming IEO evaluation of Fund assistance to Jordan is also expected to yield insights into program design.

B. Financing Instruments and Other Mechanisms for Intensified Engagement

30. **We are continuing to review the Fund's facilities to ensure that they are well designed and meet the needs of our membership.** The Board has recently reviewed access policy, and will review maturities and charges shortly after the meetings.

- **Review of access policy:** The Executive Board considered that the criteria for access in individual cases, the access limits in the General Resources Account, and the access limits and norms applying to PRGF resources all remain broadly appropriate.³⁰ Although access is determined in terms of the quotas of members, a number of Directors felt that quotas may not always faithfully reflect the size of an economy and accordingly should not be viewed as the best metric in all cases. The review also

²⁹ See *IMF Concludes 2004 Article IV Consultation with Benin*, Public Information Notice (PIN) No.04/127, November 12, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn04127.htm>; *IMF Concludes 2004 Article IV Consultation with Malawi and Discusses Ex Post Assessment of Performance Under Fund-Supported Programs*, Public Information Notice (PIN) No. 04/132, November 24, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn04132.htm>; *IMF Executive Board Concludes 2004 Article IV Consultation with Guinea-Bissau*, Public Information Notice (PIN) No. 04/138, December 10, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn04138.htm>; *IMF Executive Board Concludes Article IV Consultation with the Republic of Armenia*, Public Information Notice (PIN) No. 04/137, December 10, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn04137.htm>; *IMF Executive Board Concludes 2004 Article IV Consultation with Vietnam*, Public Information Notice (PIN) No. 05/01, January 5, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0501.htm>; *IMF Executive Board Concludes 2004 Article IV Consultation with the Kyrgyz Republic*, Public Information Notice (PIN) No. 05/4, January 14, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0504.htm>; *IMF Executive Board Concludes 2004 Article IV Consultation with Albania*, Public Information Notice (PIN) No. 05/30, March 10, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0530.htm>; and *Bolivia - Ex Post Assessment of Longer-Term Program Engagement* (3/11/2005), Public Information Notice (forthcoming).

³⁰ *Review of Access Policy in the Credit Tranches, the Extended Fund Facility and the Poverty Reduction and Growth Facility, and Exceptional Access Policy* (3/14/2005), Public Information Notice (forthcoming).

revisited the policy on exceptional access. Directors recognized that requests for exceptional access can (as has been the case in several recent cases) come from members not experiencing capital account crises. Some Directors felt that there would be merit in considering changes to the exceptional access policy to provide greater clarity on the Fund's actions in such cases. However, most Directors believed that, overall, changes to the existing framework of exceptional access are not needed at this time, particularly considering the flexibility to grant access under the exceptional circumstances clause, including in those rare cases where a member could not be expected to meet all four criteria. Most Directors agreed that a discussion of exit strategies in program documents would help foster better communication with capital markets and facilitate earlier reaccess, with many Directors calling for a strong presumption that exit strategies would be formulated in the context of a single Fund arrangement.

- **Review of maturities and charges:** This review will focus on the experience with the policies on surcharges and time-based repurchase expectations in reinforcing the revolving character of Fund resources. It will highlight the distinctions in policies for exceptional access under the Supplemental Reserve Facility versus the credit tranches and the Extended Fund Facility. To the extent that these discussions evidence a consensus for changes to existing policies, a package of specific proposals could be developed for Board consideration.

31. **The Trade Integration Mechanism (TIM) is an important recent addition to the Fund's toolkit.** Following the expiration of textile quotas, the Dominican Republic became the second member to obtain support in accordance with the TIM in January 2005,³¹ and discussions are underway with a number of other members. The availability of assistance under the TIM should also contribute to assuaging concerns of some developing countries that an ambitious outcome to the Doha Round could place undue adjustment pressures on them.

32. **In response to requests by the IMFC, we are giving further consideration to the instruments for signaling assessments of members' policies outside the context of a financial arrangement, and to the current and potential roles of precautionary arrangements both in signaling and in providing protection against the emergence and spread of capital account-driven crises.** Previous Board discussions did not lead to a consensus on this issue, which reflects fundamental differences of view on whether existing Fund policies are adequate to address members' needs. A paper that addresses these issues for PRGF-eligible countries will be discussed by the Board (see VII.B). Existing policies already allow for frequent consultation with members without a program relationship, which then affords a basis for assessments by staff of the authorities' policies to be released to the

³¹ *IMF Executive Board Approves US\$ 665 Million Stand-By Arrangement for the Dominican Republic, Extends Repayment Expectations*, Press Release No. 05/18, February 1, 2005, <http://www.imf.org/external/np/sec/pr/2005/pr0518.htm>.

public (through publication) or to creditors or donors (through assessment letters provided by the staff upon request). Importantly, such assessments do not constitute an endorsement of the member's policy program or a statement that it meets a particular standard. Different variants of this approach are currently being used for Ecuador, Jamaica, Lebanon, and Nigeria.

VII. SUPPORT FOR LOW-INCOME MEMBERS

We are pursuing a range of initiatives to ensure that the Fund responds flexibly, within its mandate, to the needs of low-income members and the donor community.

Key initiatives include:

- *Enhancing the design of PRGF-supported programs and contributing to the refinement of the Poverty Reduction Strategy process;*
- *Strengthening our instruments for engaging with low-income members;*
- *Increasing our efforts to help low-income member countries achieve and maintain debt sustainability.*

33. **The Fund is fully engaged in efforts to help the world's poor.** As an international financial institution with near universal membership, the Fund is in a unique position to help build both pillars of the Monterrey Consensus: country-owned domestic frameworks and policies, and an enabling international environment. On the one hand, the Fund works with countries to design policies and build institutions that will help them grow out of poverty. On the other, the Fund is a strong advocate for more and better international support, and has a role to play in supporting its coordination. The focus of the Fund's work in low-income countries continues to be on promoting macroeconomic and financial stability—a precondition for growth and poverty reduction.

34. **The year 2005 represents an important milestone on the way to the Millennium Development Goals for 2015.** The UN's recently issued Millennium Project report marked the opening of a period of stocktaking on the status of progress made toward the MDGs and how to accelerate it—discussions which will culminate at the *UN Summit Conference on Implementing the Millennium Declaration* in September. An important step in this process was the *Second High-Level Forum on Aid Effectiveness* held in Paris in March. This Forum focused on ways to achieve greater aid effectiveness and better development results in support of efforts to reach the MDGs, by harmonizing donor aid delivery procedures and reporting requirements and by aligning donor support programs with recipient countries' priorities. The Fund, even though it is not a donor, supports the principles and commitments in the Paris Declaration on enhancing aid effectiveness, and will work to promote its implementation. In particular, the Fund will work within its mandate with multilateral development partnerships toward enhancing the predictability of aid flows and achieving greater policy coherence on the part of development partners.

35. **A key priority for the Fund in the coming months will be to define more clearly its role in supporting low-income members,** through unifying the work in program design, signaling, PRSP involvement, and debt relief in a single framework, which will also form the

basis for identifying more clearly the role of the Fund in helping members reach the MDGs. This work will build on the results of the Board discussion in September 2004 of staff's preliminary work on this issue, which underscored that low-income countries must take the lead in their own reform efforts, and that the Fund should focus on supporting the macroeconomic policy reforms needed to support high growth and poverty reduction over the medium term, through policy advice, capacity building, and financial assistance.³²

36. In the past six months, efforts have focused on refining the Fund's policy advice, strengthening the instruments for engaging low-income members, and helping members work toward achieving and maintaining debt sustainability.

A. Refining the Fund's Policy Advice

37. The 2004-05 conditionality review (see V.A) identified important lessons for the Fund's policy advice to low-income member countries, which will be complemented by a review of PRGF program design currently underway. The latter review, which will be discussed by the Board in mid-2005, will investigate the linkages between institutions and growth, monetary and fiscal policy design in countries where stabilization has been achieved, and the macroeconomic challenges of managing increases in aid flows. A pilot project is already underway to develop alternative macroeconomic scenarios for individual countries based on different volumes of aid flows. A conference on *Macroeconomic Policy Challenges in Low-Income Countries*, which was hosted by the Fund in February 2005 and co-sponsored by the Fund, the World Bank, the United Kingdom, and the Netherlands, provided an opportunity for interaction between academics based in low-income countries and researchers elsewhere on the effectiveness and scope for improvement of macroeconomic policies in low-income countries.³³

38. The Fund's involvement in the Poverty Reduction Strategy (PRS) process is an important factor shaping the Fund's policy advice. An in-depth review of the PRS approach is currently being prepared jointly with World Bank staff, in time for its fifth anniversary and for the forthcoming UN Summit.³⁴ This review will draw lessons for the future from the experience of countries in preparing and implementing poverty reduction strategies and of donors in supporting these efforts. The 2005 PRS review will focus on five themes: (i) strengthening the medium-term orientation of the PRS; (ii) utilizing the PRS as a mutual accountability framework between recipient countries and donors; (iii) broadening and deepening meaningful participation; (iv) enhancing linkages among the PRS, planning documents, the medium-term expenditure frameworks and budgets; and (v) tailoring the

³² *IMF Executive Board Reviews the Role of the Fund in Low-Income Member Countries*, Public Information Notice (PIN) No. 04/110, September 30, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn04110.htm>.

³³ *Macroeconomic Policy Challenges in Low Income Countries Conference*, IMF Headquarters, Washington, DC, February 15-16, 2005 <http://www.imf.org/external/np/res/seminars/2005/macro/index.htm>.

³⁴ *Concept Note, Joint World Bank and IMF Report on Poverty Reduction Strategy Papers—Progress in Implementation*, 2005 PRS Review, February 2, 2005, <http://www.imf.org/external/np/pp/eng/2005/020205.pdf>.

approach to conflict-affected and fragile states. Other work underway includes a review of the Fund's role in the PRS process.

39. **On an operational level, the substantial changes in the operational roles of PRS documents, which the Executive Boards of the Fund and the World Bank agreed to in September 2004, have been implemented.**³⁵ Key changes include the elimination of the requirement for the endorsement by the Fund and World Bank Boards of the PRS documents as a satisfactory basis for Fund (and Bank) concessional lending under the PRGF; the replacement of the Joint Staff Assessment (JSA) of the authorities' PRS documents by a Joint Staff Advisory Note (JSAN); and the elimination of the requirement for a JSA or JSAN for PRSP preparation status reports. The Fund Executive Board amended the PRGF Trust and PRGF-HIPC Trust Instruments accordingly.³⁶

40. **The Fund is also contributing through its policy analysis to the dialogue with other development partners.** Key analytical contributions to the upcoming *UN Summit* are the second Global Monitoring Report (GMR), which reports on progress toward the MDGs and on remaining obstacles to achieving them, and further work on innovative sources of development financing:

- **Global Monitoring Report:** The GMRs are prepared jointly with the World Bank. While the first GMR, published in June 2004, provided a comprehensive assessment of the policy agenda for achieving the MDGs and related development outcomes, the 2005 GMR has a more selective focus on key areas of the policy agenda but aims to provide a more in-depth assessment in those areas.³⁷ It pays special attention to Africa, which is the region most at risk of failing to achieve the MDGs. The Fund staff's primary contribution to the GMR is in the area of the agenda for growth, which is central to reducing poverty and meeting the MDGs. The broad priorities emphasized are macroeconomic stability, and institutions and policies that promote private sector growth. Better expenditure management is critical to sustaining macroeconomic stability and improving expenditure composition so as to promote growth and reduce poverty. To invigorate the private sector and encourage a wider range of profitable opportunities to be taken up, it is essential to remove excessive regulatory and institutional constraints and to improve weak infrastructure. To

³⁵ *IMF Executive Board Reviews Poverty Reduction Strategy Papers—Progress in Implementation*, Public Information Notice (PIN) No. 04/113, September 30, 2004, Corrected: 12/8/04, <http://www.imf.org/external/np/sec/pn/2004/pn04113.htm>.

³⁶ The proposed decisions were adopted on November 9, 2004 as Decision No. 13373-(04/105) PRGF and No. 13374-(04/105) PRGF. See *Poverty Reduction Strategy Papers—Proposed Amendments to the Poverty Reduction and Growth Facility (PRGF) Trust and the PRGF-HIPC Trust Instruments*, November 4, 2004, <http://www.imf.org/external/np/prsp/2004/110404.htm>.

³⁷ *New IMF-World Bank Report Calls for Urgent Action to Cut Global Poverty and Win Better Development Results for Poor Countries*, Press Release No. 05/83, April 12, 2005, <http://www.imf.org/external/np/sec/pr/2005/pr0583.htm>.

underpin these efforts, recent progress on political governance must begin to translate more clearly into progress on economic governance. Transparency in its various dimensions is a theme of many of the key interventions discussed in the report. Trade liberalization is also a critical domestic policy priority in many cases.

- **Innovative sources of financing:** In response to requests by the IMFC and the Development Committee to continue work on innovative sources of development financing, such as the International Finance Facility (IFF) and global taxes, Fund and World Bank staffs have produced a joint note outlining progress that has been made in advancing the analysis on these issues. This includes continuing assessment by the Fund on global tax instruments that have been proposed, focusing by way of example on aviation taxes; and a World Bank analysis on progress in putting in place the IFF for Immunization (IFFIm), which is a fund to support an enhanced program of vaccinations.

B. Strengthening Instruments for Engaging Low-Income Members

41. Progress has been made in following up on the earlier Board discussion of the modalities and financing of the Fund's financial support for low-income countries:³⁸

- **Access:** As part of the implementation of the Executive Board's decision to adopt norms for tapered access to PRGF resources under successive arrangements, operational guidance to staff has been finalized. This guidance clarifies also the policy on blended use of PRGF resources and resources from the General Resources Account, and on the augmentation of PRGF arrangements in response to a shock.³⁹
- **Emergency assistance for natural disasters:** The Executive Board agreed in January 2005 to subsidize emergency assistance for natural disasters to PRGF-eligible members, subject to the availability of subsidy resources.⁴⁰ Members that have previously received emergency assistance for natural disasters, but have not yet fully repaid such assistance (i.e., Grenada and Malawi), will be able to benefit from this initiative, as well as members affected by the recent tsunami—notably Maldives and Sri Lanka, whose requests for emergency assistance were approved in March 2005. To help these latter members and others affected by the tsunami, the Fund moved quickly to provide an assessment of the macroeconomic impact of the natural

³⁸ *IMF Concludes Discussion on the Fund's Support of Low-Income Member Countries: Considerations on Instruments and Financing*, Public Information Notice (PIN) No. 04/40, April 15, 2004, <http://www.imf.org/external/np/sec/pn/2004/pn0440.htm>.

³⁹ *Operational Guidance Note on Access under the Poverty Reduction and Growth Facility* <http://www.imf.org/external/np/prgf/2004/110904.htm>.

⁴⁰ *IMF Executive Board Approves Proposal to Subsidize Emergency Assistance for Natural Disasters for PRGF-Eligible Members*, Public Information Notice (PIN) No. 05/8, January 27, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0508.htm>.

disaster. These efforts also facilitated the Paris Club creditors' recent decision to provide a one-year moratorium on debt service.

- **Post-program monitoring:** The Executive Board adopted in March 2005 a decision extending post-program monitoring to PRGF resources.⁴¹

42. **The Board will return to the issues of Fund signaling and support for enhanced donor coordination in low-income countries shortly after the spring meetings.** The work underway to lay the basis for this discussion draws on extensive consultations with donors and low-income members on their needs for signals, and considers whether there is a need to fill information gaps and how this might be done, either within or outside the context of a Fund arrangement; whether there is scope for better alignment and synchronization of Fund activities with country and donor activities; and whether documentation demands on the authorities can be streamlined and donor conditionality better coordinated.

43. **The financing requirements of the PRGF, and the available resources, will need to be kept under close review.** Under current policies, the demand for PRGF resources is estimated at SDR 0.8-1.2 billion per annum through 2010. These estimates, and the associated resource needs, will need to be refined in the light of ongoing discussions on the instruments available for assisting low income members and related considerations, including the possibility of the provision of further debt relief beyond HIPC (see also VII.C). The Board will return to these issues later this year.

C. Debt Relief and Debt Sustainability

44. **The IMFC called upon the Fund to consider further debt relief and its financing.** The Board has discussed, in seminar format and in a preliminary fashion, how debt relief could play a role in helping low-income countries tackle their problems and progress toward the MDGs. Further debt relief holds out the promise of easing concerns about debt sustainability while attracting additional financing to achieve the MDGs, and of providing predictable budget support with relatively low transactions costs for recipients. Drawbacks include that it could perpetuate moral hazard and raise issues of equity, by allocating scarce resources on the basis of past borrowing, and that it would not address the broader agenda of reforms needed to accelerate progress toward the MDGs. Directors also stressed that should the Fund engage in further debt relief, it should do so only as part of a broader international initiative, and that the benefits of such an initiative would depend importantly on the commitment of the donor community to increase the overall aid envelope to ensure additional net resource transfers to low-income countries. In any event, Directors emphasized that the Fund should not embark on an initiative for further debt relief without first securing adequate financing, especially as the Fund's commitments under the HIPC Initiative are not yet fully funded. Of the three possible sources for financing debt relief, most Directors

⁴¹ *Extension of Post-Program Monitoring to Cover the Use of PRGF Resources*, March 4, 2005, <http://www.imf.org/external/np/prsp/2005/030405.htm>.

stressed that additional bilateral grant contributions would be the most desirable, though there are few indications thus far of willingness to contribute such resources. Directors broadly opposed the use of existing PRGF resources, as this would reduce the Fund's future concessional lending capacity. There was some discussion of modalities whereby the Fund's gold could potentially be used to finance debt relief. It was agreed that any such operation could not be allowed to compromise the Fund's financial strength and integrity, and that it would be preferable not to repeat the off-market gold transactions of 1999-2000, given their adverse impact on the Fund's income position. However, we are far from the necessary support for any agreement on the use of the Fund's gold.

45. **Further progress has been made in implementing the enhanced HIPC Initiative.** Three more countries—Honduras, Rwanda, and Zambia—will have reached the completion point ahead of the spring meetings, bringing the total to 18 countries. The Executive Boards of the Fund and the World Bank decided in September 2004 to extend the sunset clause for eligibility under the HIPC Initiative to 2006, thereby giving additional countries the opportunity to benefit from HIPC debt relief. Staff will present as part of the next report on progress in implementation a preliminary list of countries that meet the criteria defined by Directors, with the objective of bringing within the HIPC Initiative all poor countries with current unsustainable debts, while preventing the Initiative from becoming a permanent facility. Updated information on the participation of non-Paris Club creditors in the enhanced HIPC Initiative has been provided to the two Executive Boards in the context of the statistical update on the implementation of the enhanced HIPC Initiative ahead of the spring meetings.

46. **To preserve the potential benefits of debt relief, it will also be critical to help countries avoid excessive borrowing in the future.** This is the purpose of the new debt sustainability framework for low-income countries. The Executive Boards of the Fund and the World Bank discussed the framework in March and September 2004, and endorsed its key elements, including a standardized forward-looking analysis of debt and debt service indicators, an assessment of sustainability informed by indicative policy-dependent debt burden thresholds, and a consistent financing strategy. The framework has implications for PRGF program design, as it suggests a more systematic use of indicative targets on the net present value (NPV) of external debt, increased flexibility in the application of limits on non-concessional debt, and more systematic use of overall fiscal deficit limits. Recent examples are the PRGF arrangements for the Kyrgyz Republic and for Guyana, which employ overall fiscal deficit limits, indicative targets on the NPV of external debt (Guyana), and a ceiling on concessional borrowing (Kyrgyz Republic).

47. **The Board had a further discussion of the debt sustainability framework for low-income countries in April 2005.**⁴² Directors endorsed indicative thresholds for the net present value of debt to exports of 100-150-200 percent, depending on the quality of a

⁴² *Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations* (3/29/05) and Public Information Notice (forthcoming).

country's policies and institutions, and corresponding thresholds for the other four debt and debt-service indicators. The thresholds are centered on the operational thresholds of the HIPC Initiative. The new framework will be applied as soon as possible to all low-income member countries, including HIPCs. Specific modalities for collaboration between Fund and World Bank staffs in preparing joint debt sustainability assessments for individual countries have been formulated, taking into account each institution's responsibilities in line with their separate mandates. Directors asked the staff to report to them on experience with the implementation of the framework after a six to twelve month period.

VIII. MANAGING AN EFFECTIVE INSTITUTION

We are committed to meeting the highest standards of internal management, control, and governance. Several important initiatives are underway in this regard:

- *Further reforms of the budget process have been launched with the ultimate aim of establishing a medium-term and output-oriented budget;*
- *A review of the Fund's employment framework, compensation, and benefits is underway;*
- *Several initiatives are also in train to safeguard the Fund's financial position.*

48. **The Fund is moving to apply improved techniques to the budget process to facilitate better prioritization.** Considerable progress has already been made in strengthening the budget process, through a shift to greater focus on outputs and improved systems for control and monitoring, building on the 2001 evaluation report on the Fund's budget system. Additional reforms will comprise four main interlinked components: (i) the development of an overall strategy document; (ii) an associated medium-term budgetary framework, reflecting an output-led approach; (iii) medium-term departmental business plans with an increasing focus on monitorable objectives through performance measurement; and (iv) an annual budget that is derived from the preceding three elements. The strategic review (see Section II) will play a crucial role in setting priorities for the Fund's work program and medium-term budget framework, which, in turn, will form the basis for medium-term departmental business plans and annual budgets.

49. **We are reviewing several key aspects of our operations.** A review of the Fund's employment framework, compensation, and benefits is currently underway and will consider interlinked issues relating to the Fund's staffing strategies, career management, staff compensation and benefits, and the relationship between the budget and compensation systems. A review of the resident representative program has been concluded, and the findings submitted to the Fund's Committee on the Budget. More generally, it will also be necessary to assess the adequacy of the Fund's systems of risk management and control.

50. **A review of the Fund's finances and financial structure is underway.** At a recent Board seminar, Directors considered that the Fund's current financial structure has served the institution well and should be broadly maintained. Noting that the Fund's income base is heavily dependent on the level of Fund credit, Directors called for further work on options

for broadening the Fund's income base. There was strong support for exploring the possibility of establishing an investment account, and interest in exploring a range of other possible reforms. The review will also consider ways of simplifying the Fund's income mechanism and making it more transparent. Directors have also pointed to the linkages between this review and ongoing work in other areas, including the structure of Fund charges and financial risk assessment.

51. **Other initiatives to safeguard the Fund's financial position** include reviews of the Fund's safeguard policy and the Fund's external audit arrangements, which will be submitted for Board consideration after the spring meetings.

52. **The Fund's current liquidity situation is satisfactory, and the Fund will likely be able to meet the projected near-term needs of its members**, particularly in the context of the global economic recovery. The forward commitment capacity has increased further in recent months to a new high of SDR 94 billion as of end-March 2005. Continued monitoring of the Fund's liquidity position will be important given the challenges to a sustained recovery and the need for the Fund to have adequate resources to fulfill its responsibilities.

53. **There has been no change since September 2004 in the status of the proposed Fourth Amendment of the Articles of Agreement for a special one-time allocation of Special Drawing Rights (SDRs)**. This has been accepted by 131 members with about 77 percent of the voting power.

54. **Communication strategy remains crucial to enhance public understanding of the Fund and of its policy advice**. Staff continues to organize a variety of outreach efforts, including briefings and seminars for parliamentarians, the private sector, trade unionists, journalists, civil society organizations, other groups, and the public at large to help disseminate and explain Fund policy advice to wider audiences. Communication by staff country teams is being enhanced, including through resident representative websites and by making key documents available in languages other than English. Looking ahead, the Executive Board discussed the issue of further integrating IMF communication and operations.⁴³ Directors considered that the Fund pursues a reasonably balanced communication strategy and did not see a need to increase these efforts significantly or to make a shift in the strategy. They emphasized the objective of better coordination of communication with operations, both in country work and in broader policy design and implementation. They supported closer collaboration between area departments and the External Relations Department in developing and implementing regional and country communication plans, adapted to countries' circumstances and priorities, and designed and executed with the support of Directors and country authorities. Some Directors cautioned that particular care will be needed to ensure that country ownership of programs should not be undermined by high visibility of the IMF. Directors saw considerable scope for the Fund to

⁴³ *IMF Executive Board Discusses Integrating IMF Communications and Operations*, Public Information Notice (PIN) No. 05/34, March 18, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0534.htm>.

convey its surveillance findings more widely and effectively. They also pointed to the benefits as well as the costs of making additional information available in local languages, and welcomed the recent formation of a task force of Directors and staff to consider whether the Fund should increase the effective dissemination of material published in languages other than English, taking into account the desirability of reaching wider audiences, indications of current and prospective demand, and resource constraints and costs.

IX. QUOTAS, VOICE, AND PARTICIPATION

We continue to seek consensus on the critical question of quotas, voice, and participation.

55. **We continue to consult with our shareholders toward needed consensus on the critical question of quotas, voice, and participation.** These issues have been on the Fund's agenda for a number of years (see Box 1), and their importance was reaffirmed in the context of the discussion of the Fund's medium-term strategy (see paragraph 16). The Fund's membership will need to make determined and cooperative efforts to build agreement in this area.

Box 1. Status of Fund Discussions on Quotas, Voice, and Participation

- On January 30, 2003 the Fund's Board of Governors adopted a resolution concluding the Twelfth General Review of Quotas without proposing an increase in Fund quotas. The resolution also noted the Executive Board's intention during the period of the Thirteenth General Review "to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund." Under the Fund's Articles, general reviews of quotas are to be conducted at intervals of not more than five years; the Thirteenth Review will therefore need to be concluded by January 2008.
- On July 31, 2003, the Executive Board considered issues related to the distribution of Fund quotas—including quota formulas—and voting power. Most Directors saw considerable merit in a package approach including elements that would benefit the membership as a whole. Specifically, such a package would involve a general quota increase with a relatively large selective element allocated by means of a new quota formula; ad hoc quota increases aimed at addressing the clearest cases of out-of-liness; and an increase in basic votes specifically aimed at correcting the erosion of the voting power of the smallest members. It was noted, however, that an increase in basic votes would require an amendment of the Articles of Agreement. Based on regular monitoring of the adequacy of Fund resources, most Directors have also continued to be of the view that there is currently no need for a quota increase. Updated illustrative quota calculations were provided to the Board in August 2004.¹
- The Executive Board has taken a number of actions in recent years to enhance the administrative and technical capacity of the offices of Executive Directors from developing and transition countries to participate fully and effectively in the Fund's decision-making process. In April 2003 the Executive Board decided to allow the Executive Directors with the largest constituencies—i.e. the Executive Directors from sub-Saharan Africa—to add three persons to staff in their offices.
- A status report by the IMF's Executive Board on Quotas, Voice, and Representation was provided to the IMFC for its October 2, 2004 meeting. In taking note of the report, the IMFC encouraged the Board "to consider further issues of voice, quotas, and participation, noting as the Board agreed, that progress will require broad consensus among the shareholders." (IMFC communiqué, October 2, 2004).

¹ *Quotas—Updated Calculations*, August 27, 2004,
<http://www.imf.org/external/np/fin/2004/eng/082704.htm>.

Table 1. Participation in Transparency, FSAP, and Standards and Codes Initiatives 1/ 2/
(as of March 31, 2005)

	(1) Africa	(2) Developing Asia	(3) Central and Eastern Europe	(4) CIS and Mongolia	(5) Western Hemisphere	(6) Middle East	(7) Advanced Economies	(8) Total IMF Members
Number of Members	51	29	17	13	32	14	28	184
<u>Initiatives:</u>								
SDDS Subscriber 3/ Number of members	2	5	11	6	10	1	24	59
GDDS Participant 4/ Number of members	38	11	4	4	17	5	0	79
PIN Published Number of members 5/ Percentage	50 98%	28 97%	17 100%	11 85%	31 97%	12 86%	28 100%	177 96%
Article IV Staff Report Published Number of members 5/ Percentage	49 96%	22 76%	17 100%	11 85%	25 78%	6 43%	28 100%	158 86%
FSAPs Completed Number of members Percentage	15 29%	5 17%	13 76%	8 62%	20 63%	9 64%	17 61%	87 47%
ROSC Modules Completed Number of members 6/ Percentage	24 47%	11 38%	16 94%	10 77%	22 69%	10 71%	26 93%	119 65%
ROSC Modules Completed Number of modules 7/ Percentage of total modules	108 17%	46 7%	133 21%	63 10%	99 16%	42 7%	133 21%	624 100%
ROSC Modules Published Number of members Percentage	24 47%	10 34%	15 88%	10 77%	19 59%	6 43%	26 93%	110 60%
ROSC Modules Published Number of modules 7/ Percentage of completed modules	78 72%	26 57%	127 95%	43 68%	51 52%	12 29%	131 98%	468 75%

Source: IMF and World Bank staff estimates.

- 1/ This table does not include territories, special administrative regions (SARs), and monetary unions except for ROSCs (see footnote 7).
- 2/ The regional groupings are based on the composition of World Economic Outlook (WEO) groups.
- 3/ The SDDS was established in 1996 to guide countries that have, or might seek, access to international capital markets in the dissemination of economic and financial data to the public. Table includes subscribers in full observance only.
- 4/ The GDDS was established in 1997 to encourage members to improve data quality, provide a framework for evaluating needs for data improvement and setting priorities in this respect, and guide members in the dissemination to the public of comprehensive timely, accessible, and reliable economic, financial, and socio-demographic statistics.
- 5/ The number of members that published at least one such document.
- 6/ The number of members for which at least one ROSC module has been completed. ROSC modules not derived from an FSAP are considered completed once they have been circulated to Directors, and in the case of Bank-led modules, sent in their final form to the authorities. ROSC modules derived from an FSAP are considered completed only after the FSSA has been discussed by the Executive Board.
- 7/ The number of modules reflects if a member has had more than one full assessment for the same standard. Includes fourteen completed and published modules for Hong Kong SAR, the Euro Area, and the ECCB.

Table 2. FSAP Participation
As of March 31, 2005

Countries Completed 1/	Countries Under Way	Future Participation Confirmed
Algeria	Kyrgyz Republic 3/	Australia
Antigua and Barbuda	Latvia	Bahrain
Armenia 3/	Lebanon 2/ 3/	Bosnia and Herzegovina
Austria	Lithuania	Denmark
Azerbaijan	Luxembourg	Fiji
Bangladesh	Macedonia, FYR	Guyana
Barbados	Malta	Jamaica
Bolivia	Mauritius	Madagascar
Brazil	Mexico	Namibia
Bulgaria	Moldova	Paraguay
Cameroon 2/	Morocco	Portugal
Canada 2/	Mozambique	Qatar
Chile	Netherlands	San Marino
Colombia 2/ 3/	New Zealand	Spain
Costa Rica	Nicaragua	Thailand
Croatia	Nigeria	Venezuela
Czech Republic	Oman	
Dominica	Pakistan	
Dominican Republic	Peru 3/	
Ecuador	Philippines	
Egypt	Poland 3/	
El Salvador 2/ 3/	Romania	
Estonia 2/	Russia	
Finland	Saudi Arabia	
France	Senegal 3/	
Gabon	Singapore	
Georgia	Slovak Republic	
Germany	Slovenia 3/	
Ghana 3/	South Africa 2/ 3/	
Grenada	Sri Lanka	
Guatemala 3/	St. Kitts and Nevis	
Honduras	St. Lucia	
Hong Kong SAR	St. Vincent and the Grenadines	
Hungary 2/ 3/	Sweden	
Iceland 3/	Switzerland	
India 2/	Tanzania	
Iran 2/ 3/	Tunisia	
Ireland 2/ 3/	Uganda 3/	
Israel	Ukraine	
Japan	United Arab Emirates	
Jordan	United Kingdom	
Kazakhstan 2/ 3/	Yemen	
Kenya	Zambia	
Korea		
Kuwait		

1/ Defined as when the IMF Executive Board has discussed the Financial System Stability Assessment.

2/ The initial assessment was a part of the pilot program.

3/ An update took place or was formally requested.

4/ Postponed.

5/ May be conducted as two assessments.

Table 3. HIPC Initiative: Committed Debt Relief and Outlook 1/
 Status as of April 8, 2005
 (In millions of US dollars, in NPV terms in the year of the decision point)

	Reduction in NPV Terms			Nominal Debt Service Relief			Completion / Decision Point Date
	Original HIPC Initiative	Enhanced HIPC Initiative	Total	Original HIPC Initiative	Enhanced HIPC Initiative	Total	
Countries that have reached their Completion Points (17)							
TOTAL	3,118	18,324	21,443	6,364	29,852	36,216	
Benin	0	265	265	0	460	460	Mar-03
Bolivia	448	854	1,302	760	1,300	2,060	Jun-01
Burkina Faso 2/	229	324	553	400	530	930	Apr-02
Ethiopia 2/	0	1,982	1,982	0	3,275	3,275	Apr-04
Guyana	256	335	591	634	719	1,353	Dec-03
Ghana	0	2,186	2,186	0	3,500	3,500	Jul-04
Honduras	0	556	556	0	1,053	1,053	Apr-05
Madagascar	0	836	836	0	1,900	1,900	Oct-04
Mali	121	417	539	220	675	895	Mar-03
Mauritania	0	622	622	0	1,100	1,100	Jun-02
Mozambique	1,717	306	2,023	3,700	600	4,300	Sep-01
Nicaragua	0	3,308	3,308	0	4,500	4,500	Jan-04
Niger 2/	0	664	664	0	1,190	1,190	Apr-04
Senegal	0	488	488	0	850	850	Apr-04
Tanzania	0	2,026	2,026	0	3,000	3,000	Nov-01
Uganda	347	656	1,003	650	1,300	1,950	May-00
Zambia	0	2,499	2,499	0	3,900	3,900	Apr-05
Countries that have reached their Decision Points (10)							
TOTAL	0	10,561	10,561	0	18,089	18,089	
Cameroon	0	1,260	1,260	0	2,800	2,800	Oct-00
Chad	0	170	170	0	260	260	May-01
Congo, Dem. Rep. of	0	6,311	6,311	0	10,389	10,389	Jul-03
Gambia, The	0	67	67	0	90	90	Dec-00
Guinea	0	545	545	0	800	800	Dec-00
Guinea-Bissau	0	416	416	0	790	790	Dec-00
Malawi	0	643	643	0	1,000	1,000	Dec-00
Rwanda	0	452	452	0	810	810	Dec-00
São Tomé and Príncipe	0	97	97	0	200	200	Dec-00
Sierra Leone	0	600	600	0	950	950	Mar-02
Countries still to be considered (11)							
Côte d'Ivoire 3/	345	...	345	800	...	800	Mar-98
Burundi	...	...	...	...	...	...
Central African Republic	...	...	...	...	...	...
Comoros	...	...	...	...	...	...
Congo, Rep. of	...	...	...	...	...	...
Lao PDR	...	...	...	...	...	...
Liberia	...	...	...	...	...	...
Myanmar	...	...	...	...	...	...
Somalia	...	...	...	...	...	...
Sudan	...	...	...	...	...	...
Togo	...	...	...	...	...	...
<i>Memorandum item:</i>							
Debt relief committed	3,118	28,885	32,003	6,364	47,941	54,305	

Sources: HIPC country documents; and World Bank and IMF staff estimates.

1/ Committed debt relief under the assumption of full participation of the creditors.

2/ The assistance under the enhanced HIPC Initiative includes the topping up with the NPV calculated in the year of the completion point.

3/ Côte d'Ivoire reached its decision point under the original HIPC Initiative in 1998, but did not reach its completion point under the original HIPC Initiative, nor has it reached the decision point under the enhanced HIPC Initiative. The amounts of debt relief shown are only indicative of debt relief under the original HIPC Initiative and are based on a preliminary document issued.

Table 4. HIPC Initiative: Status of Commitments by the IMF
(In millions of SDRs; as of April 7, 2005)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed 1/
Under the Original HIPC Initiative				
Bolivia	Sep. 1997	Sep. 1998	21.2	21.2
Burkina Faso	Sep. 1997	Jul. 2000	16.3	16.3
Cote d'Ivoire	Mar. 1998	--	16.7 2/	--
Guyana	Dec. 1997	May. 1999	25.6	25.6
Mali	Sep. 1998	Sep. 2000	10.8	10.8
Mozambique	Apr. 1998	Jun. 1999	93.2	93.2
Uganda	Apr. 1997	Apr. 1998	51.5	51.5
Total Original HIPC			235.3	218.6
Under the Enhanced HIPC Initiative				
Benin	Jul. 2000	Mar. 2003	18.4	20.1
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2
Burkina Faso	Jul. 2000	Apr. 2002	27.7	29.7
Cameroon	Oct. 2000	Floating	28.5	5.5
Chad	May. 2001	Floating	14.3	8.6
Congo, Dem. Rep. of	Jul. 2003	Floating	228.3 3/	2.3
Ethiopia	Nov. 2001	Apr. 2004	45.1	46.3
Gambia, The	Dec. 2000	Floating	1.8	0.1
Ghana	Feb. 2002	Jul. 2004	90.1	94.3
Guinea	Dec. 2000	Floating	24.2	5.2
Guinea-Bissau	Dec. 2000	Floating	9.2	0.5
Guyana	Nov. 2000	Dec. 2003	31.1	34.0
Honduras	Jun. 2000	Apr. 2005	22.7	8.8
Madagascar	Dec. 2000	Oct. 2004	14.7	16.4
Malawi	Dec. 2000	Floating	23.1	6.9
Mali	Sep. 2000	Mar. 2003	34.7	38.5
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8
Nicaragua	Dec. 2000	Jan. 2004	63.5	71.2
Niger	Dec. 2000	Apr. 2004	31.2	33.8
Rwanda	Dec. 2000	Floating	33.8	14.4
Sao Tome and Principe	Dec. 2000	Floating	--	--
Senegal	Jun. 2000	Apr. 2004	33.8	38.4
Sierra Leone	Mar. 2002	Floating	98.5	62.0
Tanzania	Apr. 2000	Nov. 2001	89.0	96.4
Uganda	Feb. 2000	May. 2000	68.1	70.2
Zambia	Dec. 2000	Floating	468.8	351.6
Total Enhanced HIPC			1,590.3	1,152.6
Grand Total			1,825.5	1,371.2

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm, updated on a weekly basis.

1/ Includes interest on amounts committed under the Enhanced HIPC Initiative.

2/ Equivalent to the amount of US\$22.5 million committed at the decision point in March 1998.

3/ Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a PRGF loan following the DRC's clearance of arrears to the IMF on June 12, 2002.

Table 5. Access Under Fund Arrangements By Year Of Approval, 1995–2005 1/ 2/
(In percent of quota, unless otherwise indicated)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 3/
Number of arrangements approved											
All arrangements	30	33	21	21	20	23	21	20	21	13	4
Non-exceptional arrangements	29	31	18	19	19	22	20	18	19	13	4
Commitments (on approval)											
In percent of total quota	15	9	20	17	6	6	7	18	7	1	0
In billions of SDRs	21	13	29	24	14	12	15	39	15	2	0
GRA Resources											
Average annual access											
SBA											
Non-exceptional 4/	52	39	36	44	43	46	34	39	55	21	86
Exceptional, SRF	500	...	329	200	100	...	320	510	156	...	...
Precautionary	27	27	27	42	21	40	30	30	55	17	...
EFF											
Non-exceptional	38	37	28	50	46	12	...	46	12	...	...
Exceptional, SRF	...	53	...	144	...	58	...	...	...	...	...
Precautionary	...	...	...	45	21	...	...	...	...	...	...
SBA and EFF											
Non-exceptional 4/	50	38	33	46	42	43	34	40	50	21	86
Exceptional, SRF	500	53	329	172	100	58	320	510	156	...	...
Precautionary	27	27	27	43	21	40	30	30	55	17	...
Range of average annual access											
SBA											
Non-exceptional 4/	24-100	18-80	24-69	20-81	20-85	18-85	16-57	19-97	25-100	7-42	86
Exceptional, SRF	500	...	163-646	200	100	...	320	456-564	141-170	...	...
EFF											
Non-exceptional	33-43	17-55	20-45	45-55	21-84	12	...	46	12	...	...
Exceptional, SRF	...	53	...	144	...	58	...	...	...	...	...
Projected use of Fund credit outstanding at start of arrangement, including special facilities											
SBA	58	71	47	41	84	52	47	76	111	47	60
EFF	66	145	78	217	94	224	...	68	53	...	...
Projected use of Fund credit outstanding at end of arrangement, including special facilities											
SBA	142	103	365	116	133	103	113	109	184	47	248
EFF	147	230	189	317	181	237	...	163	118	...	...
Concessional Resources											
Average annual access											
SAF	50	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	36	35	35	25	24	22	25	21	16	16	7
Range of average annual access											
SAF 5/	50	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	20-64	20-50	25-50	27-53	14-40	5-33	17-42	2-36	3-31	3-30	3-15
Projected use of Fund credit outstanding at start of arrangement, including special facilities											
SAF	151	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	113	87	96	94	103	78	98	74	71	84	130
Projected use of Fund credit outstanding at end of arrangement, including special facilities											
SAF	235	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	154	166	183	169	134	122	123	109	90	85	96

Sources: Executive Board documents, and information provided by the Finance Department.

1/ Reflects amounts and duration at time of approval; excludes potential access under external contingency mechanisms and other augmentations.

2/ Access expressed in terms of quotas of: Ninth General Review of Quotas through January 1999; 11th General Review of Quotas through January 2003, and 12th Review of Quotas thereafter.

3/ As of March 31, 2005.

4/ Including first credit tranche arrangements.

5/ Access under SAF in 1995 (Zambia) was accumulated under the Rights Accumulation Program.

Table 6. Current Financial Arrangements (GRA)

(In millions of SDRs; as of April 7, 2005)

Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	IMF Credit Outstanding
<i>Stand-by Arrangements</i>					
Argentina	9/20/03	9/19/06	8,981	4,810	8,354
Bolivia	4/2/03	4/15/05	129	27	102
Bulgaria	8/6/04	9/5/06	100	100	730
Colombia	1/15/03	5/14/05	1,548	1,548	--
Croatia	8/4/04	4/3/06	97	97	--
Dominican Republic	1/31/05	5/31/07	438	385	184
Gabon	5/28/04	6/30/05	69	28	63
Paraguay	12/15/03	9/30/05	50	50	--
Peru	6/9/04	8/16/06	287	287	54
Romania	7/7/04	7/6/06	250	250	258
10 Arrangements			11,949	7,582	9,743
<i>Extended Arrangements</i>					
Serbia and Montenegro	5/14/02	5/13/05	650	188	581
Sri Lanka	4/18/03	4/17/06	144	124	241
2 Arrangements			794	311	823
Total 12 STBY and EFF			12,744	7,893	10,566

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm, updated on a weekly basis.

Table 7. Current Financial Arrangements (PRGF)
(In millions of SDRs; as of April 7, 2005)

Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	IMF Credit Outstanding
Albania	6/21/02	11/20/05	28	4	66
Azerbaijan	7/6/01	7/4/05	68	13	102
Bangladesh	6/20/03	6/19/06	400	252	149
Burkina Faso	6/11/03	8/15/06	24	10	78
Burundi	1/23/04	1/22/07	69	36	34
Cape Verde	4/10/02	7/31/05	9	1	7
Chad	2/16/05	2/15/08	25	21	64
Congo, Dem. Rep. of	6/12/02	6/11/05	580	53	527
Dominica	12/29/03	12/28/06	8	3	4
Gambia, The	7/18/02	7/17/05	20	17	16
Georgia	6/4/04	6/3/07	98	70	171
Ghana	5/9/03	5/8/06	185	105	295
Guyana	9/20/02	9/12/06	55	28	65
Honduras	2/27/04	2/26/07	71	51	125
Kenya	11/21/03	11/20/06	225	150	116
Kyrgyz Republic	3/15/05	3/14/08	9	8	139
Lao P.D.R.	4/25/01	4/24/05	32	14	23
Mali	6/23/04	6/22/07	9	7	92
Mongolia	9/28/01	7/31/05	28	16	27
Mozambique	7/6/04	7/5/07	11	8	125
Nepal	11/19/03	11/18/06	50	36	14
Nicaragua	12/13/02	12/12/05	98	42	150
Niger	1/31/05	1/30/08	7	6	85
Republic of Congo	12/6/04	12/5/07	55	47	12
Rwanda	8/12/02	8/11/05	4	2	58
Senegal	4/28/03	4/27/06	24	14	128
Sierra Leone	9/26/01	6/25/05	131	14	126
Sri Lanka	4/18/03	4/17/06	269	231	38
Tajikistan	12/11/02	12/10/05	65	20	88
Tanzania	8/16/03	8/15/06	20	8	266
Uganda	9/13/02	9/12/05	14	4	124
Zambia	6/16/04	6/15/07	220	55	571
32 arrangements			2,909	1,345	3,886

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm, updated on a weekly basis.

Table 8. IMF's Financial Resources and Liquidity Position, 2002-2005.

(In billions of SDRs unless otherwise indicated; end-of-period)

		2002	2003	2004	Mar. 2005	
					SDRs	US\$
I.	Total resources	218.1	219.1	220.6	220.8	333.6
	Members' currencies	210.3	211.3	213.1	213.2	322.1
	SDR holdings	1.2	1.1	0.8	0.9	1.4
	Gold holdings	5.9	5.9	5.9	5.9	8.8
	Other assets	0.8	0.9	0.8	0.8	1.2
	Available under GAB/NAB activation	-	-	-	-	-
II.	Less:Non-usable resource	117.9	118.4	109.2	98.3	148.4
	<i>Of which: Credit outstanding</i>	63.6	65.0	55.4	50.3	76.1
III.	Equals:Usable resources	100.2	100.7	111.3	122.5	185.1
IV.	Less:Undrawn balances under GRA arrangements	31.9	22.8	19.4	7.9	11.9
V.	Equals:Uncommitted usable resources	68.3	77.9	91.9	114.6	173.2
VI.	Plus:Repurchases one-year forward	19.0	9.2	12.9	13.1	19.8
VII.	Less:Prudential balance	32.6	32.8	32.8	34.0	51.4
VIII.	Equals:One-year forward commitment capacity (FCC) 2/	54.7	54.2	71.9	93.7	141.6
Memorandum items:						
	Potential GAB/NAB borrowing	34.0	34.0	34.0	34.0	51.4
	Quotas of members that finance IMF transactions	163.1	164.1	164.1	170.1	257.0
	Liquid liabilities	66.1	66.5	55.7	50.7	76.5
	Liquidity ratio (in percent)	83.8	104.2	149.5	196.4	...
	US\$ per SDR	1.35952	1.48597	1.55301	1.51083	...

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm, updated on a monthly basis.

1/ Details may not add due to rounding.

2/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less a prudential balance intended to safeguard the liquidity of creditors' claims and to take account of any erosion of the Fund's resource base.