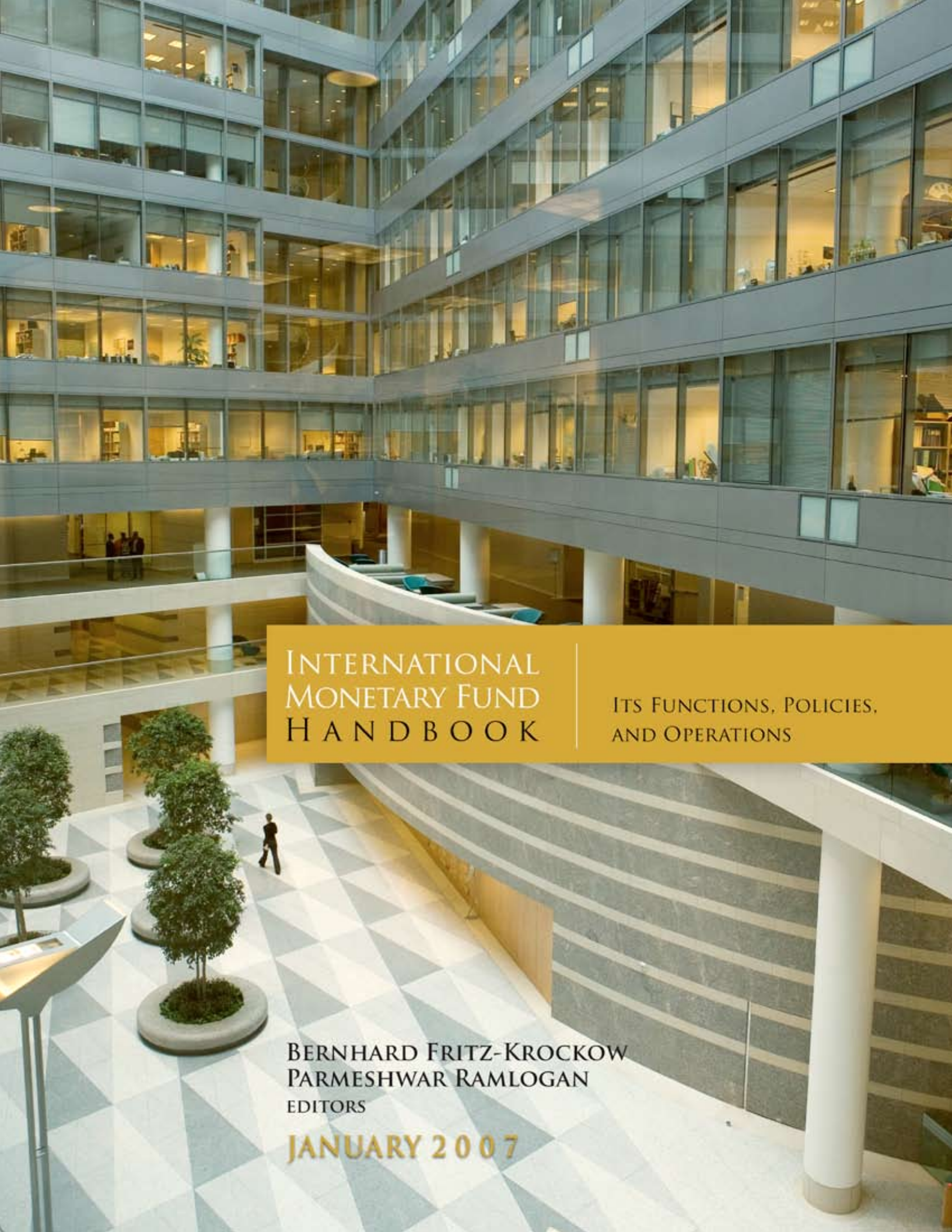

International Monetary Fund Handbook

Its Functions, Policies, and Operations

Bernhard Fritz-Krockow
Parmeshwar Ramlogan
editors

JANUARY 2007

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CONTENTS

FOREWORD

This Handbook is intended to give a general overview of the IMF's functions, policies and operations, although it is not intended to serve as an authoritative description of the rules governing these functions, policies, and operations. The Handbook provides, without commentary, a general and factual description of the IMF's mandate, its governance and internal organization, the policies that guide its day-to-day operations and interactions with member countries, and the internal procedures through which these policies are executed. The Handbook should be useful to new IMF staff members, to Executive Directors and their staff, and to members of the public in general who are interested in the IMF's mandate, policies, and operations. However, it is important to note that the publication provides but a snapshot of the IMF at the time of writing, as the continued evolution in the demands of the global economy and the role of the IMF therein will be persistent forces of change that will continue shaping the IMF's functions, policies, and operations.

The Handbook draws heavily on IMF documents and, for accuracy, the language is kept as close as possible to the originals. The source documents include the Articles of Agreement, Executive Board decisions, summings up of Executive Board discussions, annual reports of the IMF, staff reports and memoranda, pamphlets, fact-sheets, and IMF staff publications. All of the documents are available to the public and many are also accessible through the IMF's external website. The Handbook provides references in the endnotes to the relevant IMF documents, while footnotes provide some additional information that could be of interest to the reader.

The authors are grateful for the assistance of Elena Michaels, Antonella Tarantino, Henry Mooney, and Wasima Rahman-Garrett in the preparation of this publication. We also want to thank Celia Zufriategui, Lorna Sibblies, and Choon Hwee Lee for facilitating the production and publication. The present publication has been reviewed by staff from the Secretary's Department and from other departments, and the authors gratefully acknowledge the extensive comments and suggestions received.

ABBREVIATIONS AND ACRONYMS

ACB	Africa Capacity-Building Initiative
ACBF	African Capacity Building Foundation
AFRITAC	African Regional Technical Assistance Center
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AREAER	Annual Review of Exchange Arrangements and Exchange Restrictions
ASEAN	Association of Southeast Asian Nations
BIS	Bank of International Settlements
CAC	Collective Action Clause
CAM	Committee on Executive Board Administrative Matters
CARTAC	Caribbean Regional Technical Assistance Center
CCL	Contingent Credit Lines
CEMAC	Central African Economic and Monetary Community
CFF	Compensatory Financing Facility
CMCG	Capital Markets Consultative Group
DC	Development Committee
DQAF	Data Quality Assessment Framework
DSA	Debt Sustainability Analysis
DSBB	Dissemination Standards Bulletin Board
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECOSOC	Economic and Social Council
EFF	Extended Fund Facility
EFM	Emergency Financing Mechanism
ENDA	Emergency Natural Disaster Assistance
EPCA	Emergency Post Conflict Assistance
ESAF	Enhanced Structural Adjustment Facility
ESF	Exogenous Shocks Facility
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FAA	Framework Administered Account for Technical Assistance Activities
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
FCC	Forward Commitment Capacity
FIRST	Financial Sector Reform and Strengthening Initiative
FSAP	Financial Sector Assessment Program
FSI	Financial Soundness Indicator
FSLC	Bank-Fund Financial Sector Liaison Committee
FSRB	FATF-Style Regional Body
FSSA	Financial System Stability Assessment
FY	Fiscal Year
GAB	General Arrangements to Borrow

GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDDS	General Data Dissemination System
GFSR	Global Financial Stability Report
GRA	General Resources Account
HIPC	Heavily-Indebted Poor Countries
IEO	Independent Evaluation Office
IIF	Institute for International Finance
IMFC	International Monetary and Financial Committee
INS	IMF Institute
I-PRSP	Interim Poverty Reduction Strategy Paper
JIC	Joint IMF/World Bank Implementation Committee
JSA	Joint Staff Assessments
JSAN	Joint Staff Advisory Note
LEG	Legal Department
LIBOR	London Interbank Offered Rate
LOI	Letter of Intent
MCM	Monetary and Capital Markets Department
MD	Managing Director
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum on Economic and Financial Policies
METAC	Middle Eastern Regional Technical Assistance Center
MTS	Medium Term Strategy
NAB	New Arrangements to Borrow
OECD	Organization for Economic Cooperation and Development
OFC	Offshore Financial Center
OIA	Office of Internal Audit
PACT	Partnership for Capacity Building in Africa
PFTAC	Pacific Financial Technical Assistance Center
RAP	Rights-Accumulation Program
PIN	Public Information Notice
PPM	Post-Program Monitoring
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSIA	Poverty and Social Impact Analysis
ROSC	Report on the Observance of Standards and Codes
RTAC	Regional Technical Assistance Center
SAF	Structural Adjustment Facility
SBA	Stand-By Arrangement
SDA	Special Disbursement Account
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
SEC	Secretary's Department

SM	Staff Memorandum
SMP	Staff-Monitored Program
SRF	Supplemental Reserve Facility
STA	Statistics Department
TIM	Trade Integration Mechanism
TMU	Technical Memorandum of Understanding
TPRM	Trade Policy Review Mechanism
UN	United Nations
UNDP	United Nations Development Programme
WEMD	World Economic and Market Developments
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook
WTO	World Trade Organization

CHAPTER 1

OVERVIEW OF THE IMF

Mandate

The IMF is an independent international organization. It is a cooperative of 185 member countries, whose objective is to promote world economic stability and growth.[1] The member countries are the shareholders of the cooperative, providing the capital of the IMF through quota subscriptions (Box 1.1 and the Appendix). In return, the IMF provides its members with macroeconomic policy advice, financing in times of balance of payments need, and technical assistance and training to improve national economic management.

The IMF is one of several autonomous organizations designated by the United Nations (UN) as "Specialized Agencies," with which the UN has established working relationships.[2] The IMF is a permanent observer at the UN.

The Articles of Agreement that created the IMF and govern its operations were adopted at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, on July 22, 1944, and entered into force on December 27, 1945.[3] Article I sets out the mandate of the IMF as follows:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems;
- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy;
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation;
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade;
- To give confidence to members by making the general resources of the IMF temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity; and
- To shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

This mandate gives the IMF its unique character as an international monetary institution, with broad oversight responsibilities for the orderly functioning and development of the international monetary and financial system.

Functions

The IMF pursues the various facets of its mandate in a number of ways. These are summarized below, and described more detail in later chapters.

Surveillance over Members' Economic Policies

In becoming members of the IMF, countries agree to pursue economic policies that are consistent with the objectives of the IMF. The Articles of Agreement confer on the IMF the legal authority to oversee compliance by members with this obligation, making the IMF "the only organization that has a mandate to examine on a regular basis the economic circumstances of virtually every country in the world."[4]

Financing Temporary Balance of Payments Needs

The Articles of Agreement enable the IMF to lend to member countries that have a balance of payments need to provide temporary respite and enable countries to put in place orderly corrective measures and avoid a disorderly adjustment of the external imbalance. Such lending is usually undertaken in the context of an economic adjustment program implemented by the borrowing country to correct the balance of payments difficulties, which also safeguards IMF resources. In addition to providing direct financing to its member countries, the IMF plays an important catalytic role in helping member countries to mobilize external financing for their balance of payments needs.

Combating Poverty in Low-Income Countries

The IMF provides concessional loans to low-income member countries to help support these countries' efforts to eradicate poverty. In this venture, the IMF works closely with the World Bank and other development partners. In this area the IMF also plays a critical catalytic role to mobilize external financing and donor support for the countries' balance of payments and development needs. The IMF also participates in two international initiatives to provide debt relief: the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

Mobilizing External Financing

IMF endorsement of a country's policies serves as an important catalyst for mobilizing resources from bilateral and multilateral lenders and donors. They rely on an IMF endorsement of a country's economic policies or might even require a formal IMF-supported economic program before committing or disbursing their own resources to that country or granting debt relief. IMF policy assessments and recommendations also provide important signals to investors and financial markets regarding a country's economic future, and impact on investor and market confidence in the economy.

Strengthening the International Monetary System

The IMF is the central institution in the international monetary system. It serves as a forum for consultation and collaboration by members on international monetary and financial matters, and works with other multilateral institutions to devise international rules that would facilitate the prevention and orderly resolution of international economic problems.

Increasing the Global Supply of International Reserves

The IMF is authorized to issue an international reserve asset called the Special Drawing Right (SDR) if there is a global need to supplement existing reserve assets. These allocated SDRs are part of the net international reserves of members and can be exchanged for convertible currencies. They are not a claim on the IMF. The SDR is also the IMF's unit of account for all financial transactions with members.

Building Capacity through Technical Assistance and Training

Technical assistance and training are provided in the core areas of IMF expertise to help member countries design economic policies and improve economic management capabilities, which in turn can help reduce the risk of policy failures and the countries' resilience to shocks, and facilitating program design and implementation. These activities are particularly important in developing countries, where resources are scarce and institutions often weak.

Dissemination of Information and Research

The IMF is a premier source for economic analysis of its member countries' economic policies and statistical information. Information is disseminated through its numerous economic reports and research studies on member countries, as well as specialized statistical publications. The IMF also conducts research in areas relevant to its mandate and operations, mainly to improve its economic analysis and its advice to member countries. The results of this research are disseminated through books, IMF and academic journals and working papers, occasional papers, and the internet.

Medium-Term Strategy

In light of the economic transformation wrought by 21st century globalization, the IMF embarked on a review of its future direction, publishing the Managing Director's Report on Implementing the Fund's Medium-Term Strategy (MTS) in April 2006. The strategy concluded that the emergence of new economic powers, integrated financial markets, unprecedented capital flows, and new ideas to promote economic development required an updated interpretation of the IMF's mandate as the steward of international financial cooperation and stability. Without new focus and carefully chosen priorities, the institution risked being pulled in too many directions and losing its relevance to large parts of the membership.

The proposals put forward in the MTS cover the following issues:

- ***New directions in surveillance***. The difficulties in tackling unprecedented global imbalances, and the challenges facing individual countries, underscore the need for stronger exercise of surveillance by the IMF. At the global level, the MTS calls for efforts to identify—and promote effective responses to—risks to economic stability, including from payments imbalances, currency misalignments, and financial market disturbances. At the country level, the MTS calls for efforts to choosing focus and effectiveness over comprehensiveness, with deeper analysis of financial systems, a greater multilateral perspective to surveillance, and more regional context and outreach.[5] In this context, discussions are ongoing about the introduction of a new surveillance remit—understood as a statement of objectives, priorities, and responsibilities—to strengthen the effectiveness of surveillance.[6]

- ***The changing role of the IMF in emerging market countries***. In the many countries that have already emerged to become major global players, the MTS calls for efforts to augment candid and focused macroeconomic analysis with enhanced surveillance over financial and capital markets. At the same time, the MTS calls for efforts to improve crisis prevention and response.

- ***More effective engagement in low-income countries***. The MTS calls for efforts to marshal the expected rise in aid flows, including from debt relief, to achieve higher growth and the Millennium Development Goals. Helping countries do so requires a deeper but more focused engagement by the IMF, including new understandings with the World Bank and other agencies on the division of labor.

- ***Governance***. Quota and voice reform is central to the legitimacy and effectiveness of the IMF. During the 2006 Singapore Annual Meetings, a two-year package was initiated with, as a first step, an ad-hoc increase in quotas for four countries. The MTS calls for efforts to address other aspects of governance, including transparent selection of management and better definition of the role of the Board.

- ***Capacity building***. The MTS calls for targeted efforts in this area to help members implement reforms. Capacity building also needs to be part of the strategy to address vulnerabilities identified in surveillance. The IMF's efforts to build macroeconomic institutions can be strengthened with better prioritization and country ownership.

- ***Streamlining***. The MTS calls for action to control procedure and documentation, lest the work, messages, and governance of the institution are lost in a sea of paper, and to enable management and the Board to shift attention from routine and detail to broader, strategic issues.

- ***Medium-term budget***. The MTS calls for these efforts to be reconciled within a medium-term budget that deals with the projected fall in the IMF's income. But even with a decline in real spending, the MTS notes that a new business model is needed to finance IMF activity in the future, with less reliance on margins from lending and more on steady, long-term sources of income.

A number of initiatives derived from the MTS have already been put in place or are near-completion. These include the ad-hoc changes in the quotas of four member countries or initiatives such as the streamlining of consultations.

Origins of the IMF

The origin of the IMF lies in the experience of countries during the inter-war period, including the

Great Depression. In the 1920s and 1930s, many countries attempted to maintain domestic income in the face of shrinking markets through competitive devaluation of their currencies and resort to exchange and trade restrictions. Such measures could achieve their objectives only by aggravating the difficulties of trading partners who, in self-defense, were led to adopt similar policies, leading to a destructive vicious cycle. There was growing recognition of the largely self-defeating nature of these policies at the country level and the increasing global welfare losses, resulting in a widening acceptance of the need for a globally agreed code of conduct in international trade and financial matters.

It was in this context that representatives of 45 countries reached an agreement in Bretton Woods, New Hampshire during July 1-22, 1944, on the constitution and functions of an international institution to supervise and promote an open and stable international monetary system.[7] The IMF came into existence on December 27, 1945, when 29 countries signed the Articles of Agreement.[8] The inaugural meeting of the Board of Governors was convened in Savannah, Georgia, on March 8, 1946, and the first meeting of the Executive Board was held in Washington, D.C. on May 6, 1946. The IMF began its operations on March 1, 1947, and France became the first country to draw funds from the IMF in May 1947.

Size and Membership

Since its inception, the IMF's size and structure, responsibilities and priorities, and mode of operations have undergone considerable expansion or transformation in response to changes in the world economic environment. To continue to fulfill its core mandate as set out in the Articles of Agreement, the IMF has continuously adapted to meet new challenges in the evolving world economy.* In this context, it is important to bear in mind that this Handbook presents a snapshot of the IMF today, and today's IMF is the product of historical forces that will continue to evolve and to shape the future of the institution. Its present governance and organizational structures are described in more detail in Chapter 10.

Since 1945, membership has expanded steadily to include nearly all countries in the world today. Eligibility for membership is based on three basic requirements: the applicant must be a country; it must be in control of its foreign affairs; and it must be willing and able to fulfill the obligations of membership. Informal inquiries and discussions usually precede the formal membership process, while the operational procedure of the formal membership process is: (i) an application is submitted to the Managing Director; (ii) the Executive Board decides whether to proceed with a formal investigation of an application for membership; (iii) a staff membership mission produces a report that contains quota recommendations; (iv) an ad hoc membership committee considers the staff report to determine the terms and conditions of membership and the quota; (v) the chairman of the ad hoc committee ascertains whether the proposed terms and conditions and quota are acceptable to the applicant; (vi) the Executive Board considers the ad hoc committee's report, and, if the recommendations are acceptable, the draft membership resolution is submitted to the Board of Governors for adoption; and (vii) the Board of Governors may adopt a membership resolution with a simple majority, provided the requisite quorum is achieved.

Members also have the right to withdraw from the IMF at any time by transmitting a notice in writing to the IMF. Article XXVI also makes provision for the compulsory withdrawal of a member that fails to fulfill its obligations under the Articles of Agreement, and sets out a procedure for compulsory withdrawal. However, compulsory withdrawal is a last resort and the member is given ample opportunities to correct its policies and fulfill its obligations to the IMF.

The size of the IMF is often also viewed in terms of the total quota of all its members. In nominal (SDR) terms, the total quota has expanded significantly over time, reflecting the growth in membership, in the size of the world economy, and in the financing needs of the membership (Box 1 and Appendix). However, the total quota has been declining relative to world GDP.

Staff

As the membership has expanded, so has the size and diversity of the staff of the IMF. In September 1946, about 100 staff members from 15 countries worked in

* A substantive account of the historical evolution of the IMF in response to the changing global economic needs can be found in some of the sources cited in endnote 1.

five Divisions: a Research Division, an Operations Division, a Legal Division, the Secretary's Office, and an Administrative Services Unit. At end-2006 there were about 2,800 staff members, from more than two-thirds of the member countries, and a much more elaborate organizational structure, as described in Chapter 10.

The IMF staff comprises mainly economists, but also includes financial specialists, accountants, statisticians, lawyers, linguists, writers, editors, and support personnel. Most staff members work at the IMF's headquarters in Washington, D.C., USA. The IMF currently maintains small offices in Paris, Brussels, Geneva, and Tokyo, and at the United Nations in New York. In addition, the IMF has resident representative offices in many member countries and a number of regional technical assistance and training centers.

The Articles of Agreement state that the IMF staff should be of the highest caliber in terms of standards of efficiency and technical competence, while the appointments should also pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.[9] Furthermore, the Articles of Agreement indicate that the staff of the IMF, in the discharge of their functions, shall owe their duty entirely to the IMF and to no other authority, and require each member country to respect the international character of this duty and to refrain from all attempts to influence any of the staff in the discharge of their functions. Staff are immune from legal process with respect to acts performed by them in their official capacity, except when the IMF waives this immunity.

Box 1.1. The IMF's Quota System[1]

Quotas as the Basis of Capital Subscriptions to the IMF. Each member of the IMF is assigned a quota expressed in special drawing rights (SDRs), the IMF's unit of account for financial transactions with member countries. The member's capital subscription to the IMF is equal to its quota. Members pay up to 25 percent of their quota in the form of reserve assets and the remainder in their own currency. A member borrows from the IMF by purchasing reserve assets using its own currency, and repays the IMF by repurchasing its own currency using reserve assets. The total quota or capital subscription of all members is currently SDR 212.8 billion.

Other Functions of Quotas. Quotas determine the size of the IMF and play a central role in the IMF's operations.

- **Lending Capacity.** Quota subscriptions by members provide by far the bulk of the resources (reserve assets) available to the IMF to finance its lending operations. Therefore, quotas to a large extent determine the lending capacity of the IMF.

- **Voting Power.** Quotas largely determine the distribution of the voting power of the IMF and, therefore, the relative influence of individual members in decision-making at the IMF.

- **Access Limits.** The limit of members' access to IMF resources is stated as a percent of quota, so that quotas in principle determine the maximum level of a country's access. These access limits vary according to the type of borrowing arrangement between the member and the IMF. For example, under the credit tranches and the Extended Fund Facility, borrowing is subject to an annual limit of 100 percent of quota and a cumulative limit of 300 percent of quota.

- **SDR Allocations.** Quotas determine a member's share in a general allocation of Special Drawing Rights.

How Quotas Are Determined. The Board of Governors determines the aggregate quota and the distribution of this aggregate among the individual member countries. The aggregate quota is set taking into account the IMF's capacity to satisfy the projected financing needs of the membership, while individual quotas are based broadly on members' relative economic sizes in the world economy. The IMF normally conducts general quota reviews every five years with a view to adjusting, if necessary, the aggregate size and distribution of members' quotas to reflect developments in the world economy and changes in members' relative economic sizes. Quota reviews have focused on the role and size of the IMF; the adequacy of IMF resources and the need for a possible quota increase; the distribution of quotas, including possible changes to quota formulas; and governance and representation. The IMF may also undertake ad hoc quota adjustments at the request of individual members, both within and outside the context of a general review, although significant adjustments in quota shares have tended to take place in the context of general quota increases. The twelfth general review of quotas was concluded in January 2003 with no change in quotas. An 85 percent majority of the total voting power of the Board of Governors is required for any change of quotas.

Quota Formulas. Quota formulas exist to calculate the quotas of member countries. Five quota formulas are currently used for this purpose, incorporating variables that measure the economic size, external position, openness to trade, and variability of export earnings of member countries. In principle, calculated quotas help guide decisions regarding the aggregate size and distribution of members' actual quotas. In practice, the IMF has tended to distribute the bulk of quota increases as a uniform percentage of existing quotas, with the result that actual quotas of individual members differ significantly from the calculated quotas. The quota formulas have not produced quota shares that would be considered acceptable to the IMF's membership, in part because of the politically-sensitive nature of quota shares and perceived deficiencies of the formulas themselves. The formulas are currently being reviewed with a view to simplifying and updating them.

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[1] See *Articles of Agreement*; IMF, *Financial Organization and Operations of the IMF*, Pamphlet Series No. 45, sixth edition, 2001.

CHAPTER 2

SURVEILLANCE OVER MEMBERS' ECONOMIC POLICIES

Surveillance in the Articles of Agreement

The Articles of Agreement set out the obligations of member countries and the IMF, which form the legal basis of IMF surveillance over members' economic policies. [10] The core article in this respect is Article IV of the IMF's Articles of Agreement. The principles and procedures of surveillance were set out in further detail in a 1977 Executive Board Decision, which established how surveillance would be conducted after the adoption of the Second Amendment to the Articles.*

Article IV of the IMF's Articles of Agreement

Article IV is the core article outlining the members' and the IMF's responsibilities in surveillance.

Section 1 requires member countries to pursue economic policies consistent with the IMF's purpose, and stipulates that "each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." In addition to this general undertaking to collaborate with the IMF and other members, Section 1 identifies four specific obligations for members. Each member is required to:

- Endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability.
- Seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions.
- Avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.
- Follow exchange policies compatible with the undertakings of Article IV, Section 1.

Section 2 allows members to set the exchange rate arrangements of their choice, with the exception of arrangements that would set gold as a value denominator. It requires members to notify the IMF promptly of these arrangements and any changes to them.

Section 3 (a) empowers the IMF to "oversee the international monetary system in order to ensure its effective operation" and to "oversee the compliance of each member with its obligations under Section 1 of this Article."

Section 3 (b) states that, in order to fulfill its functions under Section 3 (a), the IMF "shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." Furthermore, "Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies."

The 1977 Decision on Surveillance over Exchange Rate Policies adopted principles for the guidance of members on their exchange rate policies, and principles of IMF surveillance providing guidance to the IMF in monitoring the observance by members of these principles through the specification of indicators.

The IMF relies upon the information provided by the members to conduct its surveillance under Article IV. In this context, Article VIII, Section 5 of the IMF's Articles of Agreement stipulates that the IMF may require members to furnish it with information as it deems necessary for its activities (including surveillance), and specifies a list of data that the IMF deems the minimum necessary to conduct its duties.

* The implementation of the IMF's surveillance and of the 1977 decision on surveillance is reviewed on a triennial basis by the Executive Board.

The list includes data relating to the central government, the balance of payments, external reserves, exchange controls, the international investment position, national accounts, prices, the central bank, and the banking system.[11]

The term "surveillance" refers to bilateral surveillance that is conducted pursuant to Article IV and is mandatory for all members. Some activities associated with surveillance, such as the multilateral surveillance exercises initiated in 2006, the Financial Sector Assessment Program (FSAP), and the work on standards and codes, are voluntary arrangements between member countries and the IMF (see Chapter 7). These activities are not mandatory for countries and have been developed in recent years to strengthen surveillance. Nevertheless, they are often included under the general term of "surveillance"—for example, the FSAP is referred to as "financial sector surveillance." For this reason, when speaking of members' obligations under the Articles of Agreement, surveillance is usually referred to as "Article IV surveillance."

Articles VIII and XIV of the IMF's Articles of Agreement

The IMF, within the context of an Article IV consultation, often addresses issues that fall outside the scope of surveillance entirely and are beyond its oversight of a member's compliance with the obligations specified under Article IV, Section 1. For example, as explained in the section on modalities of surveillance, the IMF uses the occasion of an Article IV consultation to consult with members with respect to the retention of exchange restrictions under Articles VIII and XIV. These Article VIII and XIV consultations are "comprehended" by the Article IV consultation but they do not form part of the Article IV consultation. They are legally different from the IMF surveillance activities and serve different purposes.

Article VIII, Sections 2, 3, and 4, provides the legal basis for the member countries' obligations to maintain currency convertibility and exchange regimes free of restrictions or discriminatory practices, and to provide adequate information.

- **Section 2** prohibits members from imposing restrictions on the making of payments and transfers for current international transactions without the approval of the IMF. The IMF will only approve restrictions if it is satisfied that they are necessary for balance of payments purposes, and that their use will be temporary, and that they are not discriminatory, while the member is seeking to eliminate the need for them. [12]

- **Section 3** prohibits members from engaging in any discriminatory currency arrangements or multiple currency practices except as authorized under the Articles of Agreement or approved by the IMF. Members maintaining such arrangements or practices are expected to consult with the IMF as to their progressive removal, unless they are maintained or imposed under the Article XIV, Section 2.

- **Section 4** requires members to maintain the convertibility of their currency, by buying balances of their currency held by other members when requested by these other members.

Article XIV provides transitional arrangements for countries that have not yet accepted the obligations under Article VIII.

- **Section 1** requires members to notify the IMF upon joining whether they intend to avail themselves of the transitional arrangements in Section 2 of this Article, or whether they are prepared to accept the obligations of Article VIII, Sections 2, 3, and 4.

- **Section 2** permits members to maintain and adapt to changing circumstances the restrictions on payments and transfers for current international transactions that were in effect on the date on which they became members. However, members are expected to withdraw restrictions maintained under this Section, and to accept the obligations under Article VIII, Sections 2, 3, and 4, as soon as balance of payments conditions permit.

- **Section 3** stipulates that the IMF shall make annual reports on the restrictions in force under Section 2 of this Article. Any member retaining any restrictions inconsistent with Article VIII, Sections 2, 3, and 4 is required to consult annually with the IMF as to their further retention.

Characteristics of Surveillance

Universality

Bilateral surveillance under Article IV is mandatory for all member countries. Furthermore, according to the 1977 surveillance decision, the principles and procedures that guide surveillance apply "to all member countries whatever their exchange arrangements and whatever their balance of payments position."[13] Surveillance consultations are held routinely with every IMF member country, irrespective of their level of development or the strength or weakness of their economic policies.

Uniformity of Treatment

The Executive Board has at various times stressed the importance of maintaining the uniformity of treatment of member countries.[14] This principle applies to all IMF activities, and not just to the conduct of surveillance. It requires that members in similar circumstances be treated similarly.

Flexibility

Article 3 (b) states that surveillance principles "shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members." The 1977 Decision on Surveillance over Exchange Rate policies also provides that the surveillance of exchange rate policies shall be adapted to the needs of international adjustment as they develop, while the 2002 biennial review reiterated its support for flexibility in surveillance procedures, emphasizing that coverage of surveillance should be molded to country-specific circumstances.[15]

Flexibility is applied in two ways. First, there have been changes in the breadth, depth, and intensity of surveillance over the years in response to new challenges and demands in the global economy, to new research findings on relevant policy issues, and to the need to better manage staff and Executive Board resources. Second, the conduct of surveillance varies with individual country circumstances—for example, with respect to timing, frequency, and focus of consultations with members.

Cooperation

Although the conduct of bilateral surveillance is an obligation for both the IMF and the members, the IMF seeks to work in a cooperative spirit with member countries, based on mutual trust and confidence. The Executive Board has repeatedly expressed strong support for the cooperative approaches underlying the IMF's relations with members.[16] The IMF recognizes that the success of surveillance depends in part on the extent to which member countries implement its advice, and that implementation will be more likely if members "own" the policies that IMF staff recommend. Thus it emphasizes, among other things, effective communication and close policy dialogue with countries, including with legislative bodies, in order to enhance ownership. In addition, some of the IMF's monitoring activities, such as the financial sector assessment program and the work on standards and codes, rely on the voluntary participation of members.

Candor

The effectiveness of surveillance depends crucially, among other things, on sound policy advice based on accurate analysis of a country's economic problems and challenges. The IMF recognizes that the quality of its analysis and advice depends in part on complete frankness by IMF staff in the surveillance exercise. At the 2002 biennial review, the Executive Board stressed the importance of candid staff reports and summings up to convey clear and strong messages to member governments on required policy actions. During the discussion of the IMF's transparency policy in June 2005 the Board again emphasized that candor in the IMF's dialogue with members and in reporting to the Board remains essential for effective surveillance.[17] Also, the Board stressed in 2004 that a thorough and candid discussion of exchange rate issues remains critical for surveillance.[18] However, under the IMF's policy for deletions and corrections, market-sensitive information in staff reports may be deleted prior to publication of the reports, at the request of the member country.

Comprehensiveness

Comprehensiveness is understood to mean coverage of all policies that are relevant for macroeconomic performance. The 1977 surveillance decision states: "The Fund's appraisal of a member's exchange rate policies shall ... be made within the framework of a

comprehensive analysis of the general economic situation and economic policy strategy of the member... .” This statement reflects the understanding that exchange rate developments are closely linked to the broad policy regime of the country.

Over the years, the scope of surveillance has expanded from a relatively narrow focus on fiscal, monetary, and exchange rate policies to a broader purview encompassing external vulnerability assessments, external debt sustainability analyses, and financial sector vulnerabilities, which have an impact on macroeconomic conditions. The increased focus on these issues was particularly noticeable after the Asian crises of the mid-1990s, when the IMF stepped up its crisis prevention efforts. This broader coverage constitutes a necessary and positive adaptation of surveillance to a changing global environment—most notably to the rapid expansion of international capital flows—and to the recognition that structural factors are important determinants of economic performance. At the same time, the IMF has reduced the scope of surveillance by limiting the analysis of other structural and institutional policies that could have an impact on macroeconomic conditions.

The IMF does not always have the expertise or experience necessary to cover all issues that may at times be critical to a country’s macroeconomic stability. On such issues, the IMF would normally draw on the expertise of other institutions, such as the World Bank, regional development banks, or specialized agencies.

Focus

A careful balance needs to be maintained between comprehensiveness and focus. This is done first by ensuring that coverage is adapted to country-specific circumstances. Also, there are two closely-related criteria to guide the selection of issues to be covered in the Fund’s consultations with member countries: macroeconomic relevance and the IMF’s hierarchy of surveillance concerns:

- **Macroeconomic relevance.** The macroeconomic relevance criterion is that policy issues should be covered in surveillance discussions only when they have a sizeable influence on macroeconomic developments.
- **Hierarchy of surveillance concerns.** Within the range of macroeconomically-relevant issues, there is a hierarchy of surveillance concerns. Matters that would be given prominent attention are: external sustainability; vulnerability to balance of payments or currency crises; sustainable economic growth with price stability; and, for systemically-important countries, conditions and policies affecting the global or regional economic outlook. [19]

Modalities of Surveillance

IMF surveillance takes three forms: bilateral, regional, and multilateral. Bilateral surveillance traditionally has been one of the core surveillance activities. However, regional and multilateral surveillance have assumed greater importance in recent years, as the need for more systematic treatment of contagion and cross-country themes in bilateral surveillance became obvious following the Mexican crisis. This has been accompanied by more reporting to the Executive Board on regional and multilateral developments as the backdrop for bilateral consultations. Regional and multilateral surveillance help strengthen the effectiveness of the IMF’s bilateral surveillance.

Bilateral Surveillance

Article IV Consultations

Article IV consultations are the principal tool of bilateral surveillance. They involve bilateral discussions between the IMF and individual member countries. They begin with a mission of IMF staff to the country to gather information and conduct discussions with country officials. Missions normally last two to three weeks and discussions are held primarily with government officials. The mission also tries to meet with representatives from the private sector, labor unions, non-government organizations, regional organizations, or academia. The objective is for the staff to gain as wide a perspective as possible on the country’s economic situation and vulnerabilities.

At the end of the mission, final discussions are held with the authorities to present the missions’ preliminary findings on developments, vulnerabilities, outlooks, and recommendations. A

member of the Executive Director's office would normally attend these discussions. The staff might also leave with the authorities a statement summarizing its findings. Upon return to headquarters, the staff writes a report setting out recent developments, the policy discussions, the short- and medium-term outlook, and the staff's appraisal of the country's economic situation and the authorities' policy stance.

The staff report, supplemented by a "buff" statement by the Executive Director to amplify the country's perspective on the issues involved, forms the basis for an Executive Board discussion.* This discussion normally takes within place 65 days of the mission's return to headquarters (or three months for members eligible for the Poverty Reduction and Growth Facility).[20]

The Executive Director representing the country takes an important part in the Board discussion, clarifying points about the country's economy and its policies as necessary. The Board discussion concludes the Article IV consultation and initiates the next consultation cycle (Box 2.1). The summing up of the Board discussion is transmitted to the country's authorities and, if the authorities agree, is published in a Public Information Notice (PIN).

Article XIV and Article VIII Consultations

The IMF conducts annual consultations with countries that maintain exchange restrictions under the transitional arrangements under Article XIV of the Articles of Agreement as to their further retention. Members are strongly encouraged to accept the obligations of Article VIII, Sections 2, 3, and 4 when the exchange restrictions are deemed to be no longer justified. However, before members notify the IMF that they are accepting the obligations of Article VIII, Sections 2, 3, and 4 it is desirable that they eliminate the exchange measures which would require the approval of the IMF under Article VIII, Section 2 (a) and 3, and that they satisfy themselves that they are not likely to need recourse to such measures in the foreseeable future.

As noted earlier, Article XIV and Article VIII consultations are normally "comprehended" in Article IV consultations. Staff findings and recommendations regarding restrictions maintained under Article XIV and subject to Article VIII Sections 2 and 3 are set out in the staff report for the Article IV consultation, and the consultations are normally concluded together with the Article IV consultation. However, Article XIV consultations are required to be concluded every 12 months. Thus, in the event that the Article IV consultation is to be concluded beyond the 12 month period, the Article XIV (and Article VIII consultations) must be concluded independently. This is normally done by the Executive Board on a lapse-of-time basis.

Multilateral Surveillance

Multilateral surveillance plays an important role in the IMF's efforts to strengthen surveillance, by detecting and heightening awareness of systemic risks and inter-dependencies in the global economy. It reviews developments in the global economy and financial markets and the outlook, highlighting the spillover effects of policy changes in systemically-important countries. As part of its multilateral surveillance efforts, the IMF is working to strengthen its effectiveness as a global forum for discussion of economic inter-linkages among countries.

* The term "buff" derives from the distribution of these statements on buff or similarly colored paper. Statements by other Executive Directors are called "gray" statements for a similar reason, although these statements are now distributed electronically.

Box 2.1. Article IV Consultation Cycles

The Standard 12-Month Consultation Cycle

The standard Article IV consultation cycle is one year. This means that Board conclusion of the consultation must normally take place within one year of the date of conclusion of the last consultation, though there is a grace period of three months. Delays beyond the 15-month period must be approved by the Board. Such approvals are granted based on staff justification of the delay.

Non-program countries are expected to be on the 12-month consultation cycle if they satisfy one or more of the following criteria: (i) they are of systemic or regional importance; (ii) they have completed an IMF arrangement in the past year; (iii) they have outstanding IMF credit above 25 percent of quota; and (iv) they are potentially subject to risk because of policy imbalances or exogenous developments, or they have pressing policy issues of broad interest to the IMF membership. However, the Executive Board, recognizing the need for flexibility in the context of strains on staff resources, has allowed for longer consultation cycles, not exceeding 24 months, for non-program countries that do not satisfy these criteria. Countries have to agree to move to a longer consultation cycle, and there may be interim staff visits.

Consultation Cycle for Program Countries

Member countries receiving financial assistance under an IMF arrangement or member countries benefiting from a Policy Support Instrument (PSI) move automatically to a 24-month consultation cycle. This is done to reduce the strain on staff resources, and in recognition that the Board is kept routinely informed of developments in program countries through periodic program reviews. However, the consultation cycle is shortened under the following circumstances:

- Where the most recent Article IV consultation was concluded 6 months or more before the date of approval of an arrangement or PSI, the next Article IV consultation should be completed within (i) 6 months of the date of approval of the arrangement or PSI, or (ii) 12 months, plus a grace period of three months, of the date of completion of the previous Article IV consultation, whichever is later.

- Where a program review is delayed, the next Article IV consultation should be completed within (i) 6 months of the original date of completion of the review, or (ii) 12 months, plus a grace period of three months, of the date of completion of the previous Article IV consultation, whichever is later. However, if the review is completed before the later of these two dates, the next Article IV consultation should be completed within 24 months of the date of completion of the previous Article IV consultation.

Upon the expiration or cancellation of an arrangement or termination of a PSI, the next Article IV consultation should be concluded within (i) 6 months of the date of expiration, cancellation, or termination, or (ii) 12 months, plus a grace period of three months, of the date of completion of the previous Article IV consultation, whichever is later, but not more than 24 months after the completion of the previous Article IV consultation, after which the country reverts to the standard 12-month consultation cycle.

The 24- Months Consultation Cycle for Non-Program Countries

Non-program countries can be on a 24-month consultation cycle if they satisfy the following criteria: (i) they are not of systemic or regional importance; (ii) they have not completed an IMF-supported arrangement in the past year; (iii) they have outstanding IMF credit under 25 percent of quota; and (iv) they are not potentially subject to risk because of policy imbalances or exogenous developments, or they do not have pressing policy issues of broad interest to the IMF membership. Countries have to agree to move to a longer consultation cycle, and there may be interim staff visits.

Multilateral consultations, the *World Economic Outlook* report, the global financial market surveillance reports, and the Annual Review of Exchange Arrangements and Exchange Restrictions (AREAER) are key instruments for multilateral surveillance:

- **Multilateral consultation.** This form of consultation was introduced in 2006 as part of the IMF's Medium-Term Strategy and is expected to take a more defined role over time.[21] Each multilateral consultation is intended to focus on a specific international economic or financial issue and directly involves selected countries that are a major party to that issue. The consultation aims at facilitating a policy dialogue among members when a collaborative solution may be required. Focusing on cooperative action, the multilateral consultation is complementary to the bilateral Article IV consultations. These consultations do not oversee members' compliance with their obligations under Article IV, and the staff discusses issues of multilateral surveillance with the key parties both individually and jointly. The associated staff report is discussed by the Executive Board and by the IMFC.

- ***World Economic Outlook*** **(WEO).** This report is the primary vehicle for surveillance of global economic developments and prospects. It is prepared and published twice-yearly by the Research Department, in the spring and autumn, as background information for the meetings of the IMFC, but on occasion is produced more frequently when rapid changes in the world economy warrant. Its preparation is a cooperative effort with other departments, particularly the area departments. The WEO report offers a comprehensive analysis of prospects and policies for the world economy, major regions, and individual countries, including forecasts of global macroeconomic variables and commodity price trends. Each report also contains staff studies of topical issues relevant to the global economy. WEO report forecasts are based on country-by-country forecasts from area departments and also constitute an important input into the work of the area departments.

- ***Global Financial Stability Report*** **(GFSR)**: This is the main instrument of global financial market surveillance. The GFSR is prepared and published semi-annually, providing timely and comprehensive coverage of both mature and emerging financial markets. Its main objectives are to identify potential vulnerabilities in the international financial system from a multilateral perspective and to analyze linkages between developments in mature financial centers and capital flows to emerging markets. Through the Capital Markets Consultative Group, the staff maintains a dialogue with representatives of internationally-active private financial institutions on issues such as the development of investor relations programs or the promotion of standards and codes.

The WEO and GFSR reports are supplemented with regular informal Board sessions on world economic and market developments (WEMD) and financial market updates. These sessions typically provide an update on recent developments, the near-term outlook, and policy implications.[22]

- ***Annual Review of Exchange Arrangements and Exchange Restrictions*** **(AREAER).** This is prepared in consultation with national authorities on the basis of data they provide. The publication includes information on the exchange rate and foreign trade regimes, and exchange controls of countries. In addition, the biannual review of exchange arrangements and exchange restrictions, which is based on the AREAER data, provides analysis of the latest developments and trends in exchange rate regimes and exchange controls on both current international and capital account transactions.

Regional Surveillance

Surveillance is also undertaken of regional developments and policies pursued by supra-national authorities. It complements bilateral Article IV consultation discussions with individual member countries by providing a regional dimension to country policy issues, and there is increasing integration of the two. Regional surveillance is particularly relevant for members of currency unions, for which policies in key areas of IMF surveillance are determined at the regional level. Discussions with regional authorities are coordinated with Article IV discussions with country officials, while staff reports on the regional discussions are considered by the

Executive Board separately or together with the Article IV reports.

Formal procedures exist for conducting surveillance over the monetary and exchange rate policies of the euro area, reflecting the systemic importance of the region.[23] These involve twice-yearly discussions with EU institutions responsible for common policies in the euro area. Such discussions are held separately from the discussions with individual countries, but are considered an integral part of the Article IV surveillance for individual countries. The discussions with individual euro area countries are clustered as much as possible around the regional discussions, which cover monetary and exchange rate policies as well as, from a regional perspective, other economic policies relevant for IMF surveillance. There is an annual staff report and Executive Board discussion on euro area policies in the context of the Article IV consultations with member countries. A summing up of the Board discussion is produced, which is cross-referenced in the summings up for the bilateral Article IV consultations with individual euro-area countries and, if relevant, in the bilateral consultations with EU member countries that are not part of the euro area.

Formal discussions at the regional level are also held with the three other currency unions—the West African Economic and Monetary Union (WAEMU), the Central African Economic and Monetary Community (CEMAC), and the East Caribbean Currency Union (ECCU)—in addition to the bilateral consultations with the member countries of these groups. A formal regional surveillance procedure has been established for these discussions, similar to that for the euro area. Annual regional reports are prepared by the staff and discussed by the Executive Board, and a summing up of the Board discussion is produced. The coverage of regional discussions with these currency unions is broadly comparable to that of the euro area.[24]

Regional surveillance outside the currency unions encompasses the regular regional outlook documents and other notes, the maintenance of a dialogue with various regional fora, and research on regional issues. Most of these activities are conducted informally. The results feed into IMF's bilateral surveillance through information sharing, strengthened policy analysis, and enhanced policy outreach. In Asia, in addition to the regional office in Tokyo, the IMF has been designated as the technical secretariat of the Manila Framework Group that was established specifically to undertake macroeconomic surveillance. The IMF also maintains dialogues with the Association of South East Asian Nations (ASEAN) and the Gulf Cooperation Council (GCC).

Strengthening Surveillance to Prevent Financial Crises

As noted above, external sustainability and vulnerability to balance of payments or currency crises constitute the zenith of the IMF's surveillance concerns. In recent years the IMF has strengthened its surveillance efforts to deal with these concerns. A number of initiatives have been taken to enhance the effectiveness of bilateral surveillance and crisis prevention. These initiatives include external vulnerability assessments, strengthening financial sector surveillance (including the Financial Sector Assessment Program, combating money laundering and terrorism financing, and offshore financial center assessments), improving data provision to the IMF, and re-examining surveillance in program countries, all of which are discussed in the remainder of this section. The increased emphasis on regional and multilateral surveillance to monitor and analyze cross-border transmission of macroeconomic risks is part of these efforts. Other initiatives, including those to strengthen international standards and codes, are explained in Chapter 7. Ongoing efforts to strengthen and focus surveillance will be put in place within the framework of the IMF's Medium-Term Strategy.

External Vulnerability Assessments

The IMF has incorporated vulnerability assessments in its surveillance work, and the use of vulnerability scenarios and indicators—such as external debt and reserve adequacy indicators—is now common in Article IV staff reports.[25] Much of this effort relates to the assessment of countries' vulnerability to changes in external circumstances and, in particular, to capital market conditions. A prime objective is to forestall crises by recommending policies that reduce vulnerabilities and strengthen the economies' resilience to shocks.

External Vulnerability Assessment Framework for Emerging Market Economies

Vulnerability assessments are routinely conducted under the normal surveillance work of the IMF. However, special attention is placed on the external

vulnerability of emerging market economies, given their high sensitivity to changes in global capital market conditions. In May 2001, a new framework was set up for bringing together staff's assessments of vulnerabilities in these countries. It entails semi-annual inter-departmental exercises to identify underlying vulnerabilities and crisis risks drawing on quantitative vulnerability indicators, qualitative staff assessments, market information, and analyses of different scenarios for the global economic and financial market environment. Countries identified as vulnerable are kept under continuous surveillance. Reports on the results of these exercises are sent to Management and department heads. The Executive Board is kept informed through the informal country matters sessions, routine bilateral and multilateral surveillance reports, and ad hoc reports in times of particular turbulence.

Vulnerability assessments combine traditional flow indicators with indicators of balance sheet vulnerabilities, drawing on analyses of international liquidity or reserve adequacy, the fiscal position and the size and composition of debt and its sustainability, and financial soundness indicators.[26]

The Balance Sheet Approach

The balance sheet approach focuses on an analysis of the country's aggregate and sectoral balance sheets to determine balance sheet exposure to shocks. The key sectoral balance sheets analyzed are those of the government, financial, household, and corporate sectors, with attention being placed on the composition of assets and liabilities and the inter-linkages among the sectoral balance sheets. The analysis focuses on four potential sources of balance sheet risks:[27] (i) *maturity mismatches* (differences in the term structure of assets and liabilities), which result in insufficient liquid assets being available to cover liabilities falling due in the short term; (ii) *currency mismatches* (differences in the currency composition of assets and liabilities), which lead to capital losses or gains in the event of a change in the exchange rate; (iii) *capital structure problems* (excessive reliance on debt financing), which leave firms vulnerable to revenue and interest rate shocks; and (iv) *solvency problems*, where assets are insufficient to cover liabilities. Inter-sectoral linkages result in spillover of shocks from one sector to other sectors. Data availability is an important impediment to a wider usage of balance sheet analysis.

Liquidity Management

The focus here is on assessing the adequacy of a country's level of foreign exchange reserves as a means of determining the country's ability to withstand shocks. Measures of reserve adequacy currently used for this purpose include the ratio of reserves to short-term debt by remaining maturity, and to imports of goods and services. They are complemented by an analysis of, and careful judgments about, a country's macroeconomic conditions and its structural and institutional characteristics, including its exchange rate regime. Measures have also been designed to broaden the analysis of reserve adequacy so as to capture the country's ability to withstand a liquidity crisis stemming from certain kinds of imbalances in the balance sheets of residents. In addition, attention is being given to assessing the role of public debt management and private sector liability management in improving a country's public and private sector balance sheets and reducing the risk of liquidity crises.

Debt Sustainability Analysis

Debt sustainability assessments (DSAs) form part of the IMF's policy analysis in surveillance and program contexts. While there are central features of the debt sustainability analysis, a distinction is made between countries with significant capital market access and low-income countries. Debt sustainability analysis for low-income countries is modified to take account of special characteristics such as reliance on official financing, the nature of the shocks to which they are subject, and constraints on the resources necessary to repay their debts.

Debt sustainability analyses for countries with significant market access is undertaken mainly for emerging market countries, but also for industrialized countries. The analysis has three core elements: a baseline projection of medium- and long-term debt sustainability indicators, scenario analysis to determine the impact of varying the assumptions about the future trend of key variables, and inferences about the vulnerability of the country to a crisis. The analysis is done separately for public debt (external and domestic) and external debt (public and private), and the results are used to derive an understanding of overall debt sustainability.

The framework for debt sustainability analysis for low-income countries was developed in 2005.[28] Its primary purpose is to form judgments on appropriate future borrowing policies taking into account

country-specific circumstances in setting the debt-sustainability thresholds, without understanding them as rigid ceilings. It should also provide the basis for designing a country-specific borrowing strategy that is compatible with the country's prospective repayment capacity. These DSAs should be prepared jointly with World Bank staff, and annual joint IMF-World Bank DSAs are required for all PRGF-eligible, IDA-only countries. The framework also constitutes an important addition to the IMF's toolkit to assess the appropriate balance between adjustment, lending, grants, and debt restructuring or relief in low-income countries. The DSA should also enable other international financial institutions and donors to establish a coordinated approach to concessionality and guide the decisions of donors and creditors.

Within the group of low-income countries, debt sustainability analyses are required for countries that are actual or potential beneficiaries of the Heavily Indebted Poor Countries (HIPC) Initiative. The HIPC Initiative seeks to restore debt sustainability by providing debt relief. It is not a permanent mechanism, does not benefit all low-income countries, uses a single debt-sustainability threshold for all countries, and supports but does not guarantee debt sustainability in the future. The 2005 low-income country DSA provides transitional arrangements for the use of the new DSA framework for HIPC cases.

Financial Sector Assessment Program

The financial sector plays a key role in the generation and transmission of vulnerabilities. The existence of a wide and diversified set of sound, well-managed financial institutions and markets reduces the likelihood and magnitude of a financial crisis. The IMF launched the Financial Sector Assessment Program (FSAP) in May 1999, jointly with the World Bank, on a pilot basis, and the program became a regular activity of the IMF and the World Bank at end-2000.[29] The objective of FSAP is to strengthen countries' financial sectors through comprehensive, in-depth assessments to identify their strengths and vulnerabilities, and their linkages with the real economy, identify critical development priorities, and to provide country authorities with appropriate policy recommendations. These assessments feed into the Article IV surveillance process, the design of IMF-supported programs, and IMF technical assistance activities.[30]

Participation in the program is voluntary. A variety of criteria are used to establish priorities in selecting countries in the face of limited resources, including a country's systemic importance, its external sector weakness or financial vulnerability, the nature of its exchange rate or monetary regime, and geographical balance among countries. Overall, the selection of countries is such as to help maximize the program's contribution to the strengthening of national and international financial stability.

In addition to their own staff, the IMF and the World Bank draw on the knowledge of experts from a range of cooperating central banks, supervisory agencies, standard setting bodies and other international institutions in carrying out the assessments. In addition to augmenting the pool of expertise already available in the World Bank and the IMF, outside experts provide a valuable element of peer review to the analysis undertaken in the FSAP, particularly as regards the assessments of observance of financial sector standards and codes, which are an integral part of the program.

The FSAP provides important input into the Article IV consultation process. Ideally, FSAP mission work is completed about three months prior to the Article IV consultation mission to allow sufficient time for the draft FSAP findings to be available for discussion during the Article IV mission, in which FSAP team leaders usually participate. The FSAP assessments, combined with discussions of the FSAP findings during the subsequent Article IV consultation mission, serve as the basis for a Financial Stability Assessment (FSSA) report, which emphasizes stability issues of relevance to surveillance and which is provided to the Executive Board as part of the Article IV consultation documentation for a country. Summary assessments of financial sector standards prepared in the FSAP are included in the FSSA and are issued as Reports on the Observance of Standards and Codes (ROSCs). Publication of the FSSA reports has occurred in about 70 percent of cases, but this is voluntary and there is no presumption of publication.

The FSAP uses a number of complementary analytical tools to establish an overall assessment of the financial sector. These include financial soundness indicators and stress testing to identify risks and vulnerabilities; standards and codes to assess institutional and regulatory structures; assessment of the broader financial stability policy framework to determine the robustness of the financial sector infrastructure; and assessment of

systemic liquidity arrangements, the governance and transparency framework, and financial safety nets and solvency regimes. Improved prioritization and streamlining have resulted in assessments that are better tailored to country circumstances.

Since the inception of FSAP, the program has been constantly improving. In particular, after the 2003 review of the Executive Board, measures were taken to ensure more focused assessments that are better tailored to countries' circumstances. The 2005 review streamlined and rationalized the framework for FSAP updates, which were growing in importance since more countries had completed their initial assessments. FSAP updates may be targeted or comprehensive in cases where there have been extensive changes since the original FSAP. Typically, updates are undertaken about five years after the original FSAP, although the timing is flexible based on country circumstances. In 2006, the Board discussed an evaluation of FSAP by the Independent Evaluation office (IEO) and decided on a number of improvements, including better presentation of FSAP to facilitate its integration in the surveillance process, and strengthening of prioritization procedures.

Financial Soundness Indicators

These are indicators compiled to monitor the soundness of financial institutions and markets, and of their corporate and household counterparts. They are a subset of the broader class of *macroprudential indicators* that IMF staff use in *macroprudential surveillance* of the financial system. Financial soundness indicators comprise a core set and an encouraged set. The core set currently includes only banking sector indicators, and are given high priority in financial sector surveillance. The encouraged set includes additional banking sector indicators as well as indicators for the corporate and household sectors, non-bank financial institutions, and financial and real estate markets. A *Compilation Guide on Financial Soundness Indicators* has been published in collaboration with experts from member countries and from other international and regional organizations, to facilitate compilation of the indicators by national authorities.

Anti-Money Laundering and Combating the Financing of Terrorism

Since September 2001, the IMF has intensified its contribution to international efforts in anti-money laundering and combating the financing of terrorism (AML/CFT).[31] These efforts seek to prevent the abuse of financial systems and to protect and enhance the integrity of the international financial system. Work on combating money laundering and terrorism financing was made a regular part of the IMF's work in March 2004. It includes technical assistance to countries to help strengthen their ability to combat money laundering and terrorism financing. The IMF's work in this area is undertaken in close cooperation with the World Bank, the Financial Action Task Force (FATF), and FATF-style regional bodies (FSRBs).

Offshore Financial Center Assessments

The IMF initiated the offshore financial center (OFC) assessment program in June 2000 on a pilot basis in response to concerns about potential risks posed to other financial systems by activities undertaken in offshore financial centers. The OFC program was permanently incorporated into its financial sector surveillance work in November 2003.[32] Participation in OFC assessments and monitoring is voluntary.

The program has four broad components: regular jurisdiction-specific monitoring of OFCs' activities and compliance with supervisory standards, improved transparency, technical assistance, and collaboration with standard-setters and supervisors to strengthen standards and information exchange. Assessments are closely coordinated with the FSAP to identify weaknesses in consolidated supervision, but the OFC program is currently independent of the FSAP, and members sometimes choose to have an FSAP rather than an OFC assessment. The program allows for a step-by-step process of assessment in three modules:

- Module 1 assessments are a self-assessment of compliance with particular standards, undertaken by the jurisdiction with technical assistance as needed to begin the assessment process.
- Module 2 assesses compliance of supervisory and regulatory systems with international standards in the banking sector and, if activity is significant, in the insurance and securities sectors, as well evaluating the regime for combating money laundering and terrorism financing. These are conducted every 4-5 years. In November 2003, the Executive Board agreed that the Module 2 main report would henceforth be reclassified as a staff report and circulated to the Board for information.

- Module 3 assesses additional compliance with standards, cross-border and domestic risks and vulnerabilities and focuses on jurisdictions that are not covered by the FSAP. No jurisdiction has as yet opted for a Module 3 assessment.

Data Provision to the IMF for Surveillance Purposes

Comprehensive, timely, and accurate economic data are critical for prudent national policymaking, crisis prevention, and for effective surveillance. Article IV staff reports devote considerable attention to data issues and discuss the implications of data deficiencies for macroeconomic analysis and policy.

The Articles of Agreement require member countries to provide the IMF with the information it deems necessary to carry out its surveillance activities. In particular, Article VIII, Section 5 (a), specifically lists categories of data that members are required to provide, consistent with their capacity. In January 2004, the IMF expanded the categories of information deemed necessary for the conduct of its activities through the adoption of an additional list of data required to be provided by members. Beyond this minimum, the IMF relies on members' cooperation to obtain data needed for surveillance, and in practice members voluntarily provide extensive data to the IMF that far exceed the requirements of Article VIII, Section 5.[33]

Article VIII, Section 5 requires members to report information to the IMF only to the extent that they have the capacity to do so. Therefore, there is no breach of obligation if a member is unable to provide the information required under this Article, or to provide more accurate information than it has provided. However, a member that is unable to provide final data is obligated to provide provisional data to the best of its ability until it is in a position to provide the IMF with the final data. Assessment of members' capacity to report required information involves an element of judgment on the basis of best statistical practice and experience, and the IMF normally gives the member the benefit of the doubt.

Where a member reports required data inaccurately, or fails to report it, despite having the capacity to do so, the IMF makes every effort to secure a cooperative solution through intensified contacts. In those rare cases that are not amenable to cooperative approaches, the IMF acts in accordance with a framework of sanctions that takes account of remedies and corrective actions voluntarily taken by the member. In practice, the Managing Director first issues a report to the Executive Board describing the alleged breach under Article VIII, Section 5, after notifying the authorities of his intention to issue such a report and giving them sufficient time to demonstrate that they are unable to provide the information or to provide more accurate information. Within 90 days of issuance of this report, the Executive Board takes a decision on whether the member has breached its obligation and may call upon the member to take remedial actions. If the member fails to implement the specified actions within the deadline, the IMF may decide to issue a declaration of censure against the member. Following the issuance of the declaration of censure, and in case of a continued failure by the member to adopt remedial actions, the IMF may decide to impose the sanctions of Article XXVI.

Surveillance in Program Countries

The IMF has emphasized the special role that surveillance has to play in program countries by providing a fresh perspective on economic conditions and policies.[34] Surveillance and IMF balance of payments support promote or restore macroeconomic stability, external viability, and sustained economic growth. Nevertheless, in countries with IMF-supported economic programs, "stepping back" from the program environment provides a broader perspective on the economic challenges facing the country and the adequacy of current policies to meet those challenges. This is particularly relevant for countries that are prolonged users of IMF resources.

Consequently, surveillance consultation cycles have been made more flexible in program countries, in recognition that surveillance is more effective at some points in the program cycle—for example, before a program is negotiated, when a program has moved off-track, or when a major change in program strategy is envisaged between programs—than at others. To further separate program and surveillance analysis, separate mission teams have been used in some cases for surveillance and program discussions.

CHAPTER 3

FINANCING TEMPORARY BALANCE OF PAYMENTS NEEDS

According to Article I of the IMF's Articles of Agreement, the purposes of the IMF include making the resources of the IMF temporarily available to member countries under adequate safeguards to provide an opportunity to the countries to correct balance of payments imbalances and to shorten the duration and lessen the degree of these imbalances.

Sources of IMF Financing

Quota Subscriptions

The primary source of the IMF's loanable funds is quota subscriptions by members.[35] As noted in Box 1.1, a quarter of the quota subscription is normally paid in reserve assets (SDRs or currencies of other members deemed by the IMF to be readily available and accepted for international payments), and the balance is paid in the member's own currency. Members' currencies are deemed usable or unusable. Usable currencies are those of member countries whose external position is strong enough for them to be called upon to finance IMF credit to other members. The IMF uses its pool of usable currencies and SDR holdings to extend credit to member countries. Since some currencies are unusable, this pool of loanable funds is less than the sum total of quota subscriptions.

Quota-based funds are held in the IMF's General Resources Account (GRA). Any member can request a loan from the pool of quota resources at any time and such a request will be granted if certain criteria are satisfied.

Borrowing

The Articles of Agreement (Article VII, Section 1) allow the IMF to replenish its holdings of any member's currency through borrowing, when needed in connection with its transactions. Such borrowing is undertaken on a temporary basis and is subject to continuous monitoring and a regular review of the IMF's liquidity by the Executive Board.

Borrowing to Supplement Quota-Based Resources

The IMF currently maintains two standing borrowing arrangements with official lenders, the General Arrangements to Borrow (GAB, effective since October 1962) and the New Arrangements to Borrow (NAB, effective since November 1998). The GAB and NAB supplement the quota-based, non-concessional lending resources in the GRA to help the IMF forestall or cope with an impairment of the international monetary system. Borrowing takes place at market-related interest rates. In the past there have been several other borrowing arrangements with official creditors under which the IMF borrowed extensively when payments imbalances were large. The IMF can borrow in private markets, if necessary, but to date has never done so.

The GAB enable the IMF to borrow specified amounts of currencies from 11 industrial countries or their central banks. The potential amount of credit available is SDR 17 billion, and an additional SDR 1.5 billion of credit is available under an associated agreement with Saudi Arabia. The NAB were set up following the Mexican financial crisis of December 1994, out of concern that substantially more resources might be needed to respond to future financial crises. They are a set of credit arrangements between the IMF and 26 member countries or institutions. The combined financing available to the IMF under the GAB and the NAB amounts to SDR 34 billion, twice that available under the GAB alone. The NAB is normally the first and principal recourse in the event of a need for supplementary financing by the IMF. Both sets of arrangements are in effect for renewable five-year terms; the GAB has been extended for five years beginning December 26, 2003, and the NAB for five years beginning November 17, 2003.

Borrowing to Finance Concessional Lending

The IMF borrows from official bilateral sources to finance concessional lending to low-income countries

under the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF), which are administered by the IMF through the PRGF-ESF Trust. Borrowing for PRGF-ESF lending usually takes place at market interest rates. However, since these funds are on-lent to low-income borrowers at a concessional rate of 0.5 percent (or interest-free in the case of debt relief), the difference between the market borrowing rate and the concessional lending rate has to be subsidized. This subsidy is covered through bilateral grants (see below) or through IMF borrowing from official bilateral sources at below-market interest rates. In the latter case, the difference between the market interest rate and the below-market rate paid to the creditor is the creditor's contribution to the interest subsidy.

Grants for Subsidized Interest Rates and Debt Relief

Bilateral grants help finance the interest subsidy on concessional loans to low-income countries, including PRGF/ESF loans and loans to low-income countries that access the IMF's emergency assistance. While the loans are made from the IMF's quota-based GRA resources and therefore carry non-concessional interest rates, a concessionality element is incorporated through an interest rate subsidy. The interest subsidy is the difference between the IMF's basic GRA rate of charge and the effective concessional lending rate of 0.5 percent. Bilateral grants also partly finance the IMF's contribution to debt relief under the HIPC Initiative, the remainder of which was financed through gold sales (see below).

Gold Sales

The IMF acquired virtually all of its holdings of gold prior to the Second Amendment of the Articles of Agreement in 1978. Prior to this Amendment, gold played a central role in the functioning of the international monetary system: the first 25 percent of members' quota subscriptions and quota increases was normally paid in gold, interest on outstanding IMF credit was normally paid in gold, and members could also use gold to purchase reserve currencies or repay debt to the IMF. The Second Amendment severely limited the use of gold in IMF transactions: the IMF may only sell gold at prevailing market prices and accept gold in the discharge of a member's obligations to the IMF; no other transactions in gold are permitted. The IMF holds around 100 million ounces (3,200 metric tons) of gold at designated depositories, valued on its balance sheet at around SDR 6 billion on the basis of historical cost, while the market value, as of mid-2006, exceeds SDR 40 billion.

The IMF has sold gold on various occasions in the past to support its operations, mostly prior to 1980. Since gold is valued at historical cost in the IMF's accounts and the market value is usually substantially higher than the book value, the sale of gold results in a profit for the IMF. These profits were placed in a Special Disbursement Account, from where they were transferred to other special-purpose accounts, in particular for financial assistance to low-income countries, including debt relief.

During 1976-80 the IMF sold gold to finance a Trust Fund that supported concessional lending by the IMF to low-income countries. When the Trust Fund ceased new lending in March 1981, its resources were used to finance concessional lending under the Structural Adjustment Facility (SAF) until 1987. Since 1987, repayments of Trust Fund and SAF loans have been accumulated to provide collateral for borrowing under the IMF's concessional lending operations. In 1993, the IMF pledged to sell up to 3 million ounces of gold if these accumulated reserves were insufficient to repay creditors who provided loans to enable members with protracted arrears to the IMF to clear these arrears under the rights accumulation approach. This is an outstanding pledge that the IMF so far has not been called upon to honor. Also, to help finance its contribution to debt relief under the HIPC Initiative, the IMF conducted a series of off-market transactions in gold in 1999-2000 that left its gold holdings unchanged.[36]

The IMF's Capacity to Lend

The IMF's lending capacity is monitored constantly and reviewed semi-annually by the Executive Board to ensure that the IMF has adequate resources to fulfill its responsibilities. A set of indicators has been developed to gauge the IMF's liquidity and lending capacity. Since December 2002, the primary measure of the short-term lending capacity is the one-year Forward Commitment Capacity (FCC), which indicates the amount of quota-based resources available for new lending over the coming 12 months (Table 3.1).[37]

IMF Financing to Member Countries

Purchases and Repurchases

The IMF extends financing from GRA resources through a form of a swap. The IMF provides reserve assets to the borrower from the reserve asset subscriptions of members or by calling on countries that are considered financially strong to exchange their currency subscriptions for reserve assets. The borrower purchases these reserve assets with its own currency. This increases the IMF's holdings of the borrower's currency and reduces its holdings of reserve assets or the currencies of the creditor countries. Creditors (who provide reserve assets or their currencies to the IMF) now have a claim on the IMF equal to the reduction in the IMF's holdings of their reserve assets or currencies: their reserve tranche positions increase.[38] The borrower later repurchases its currency from the IMF with reserve assets. This reduces the IMF's holdings of the debtor country's currency, and increases its holdings of reserve assets or currencies of the creditor countries, back to their original levels. Creditors' claims on the IMF are correspondingly extinguished and their reserve tranche positions decline.[39]

Through the purchase/repurchase mechanism of IMF financing, the value of the pool of subscribed assets of the IMF remains constant, though its composition changes. The IMF decides quarterly, based on projections of purchases and repurchases, which currencies are to be used (and up to what amounts) for purchases, and which currencies (and in what amounts) to accept in repurchases. These decisions are reflected in a quarterly financial transactions plan. Since 1999, preparation of the financial transactions plan has been governed by the principle that creditor members' reserve tranche positions should remain broadly equal relative to their quotas.

Arrangements

IMF financing, whether from GRA resources or concessional resources, is provided primarily under "arrangements" from the IMF, which are similar to lines of credit. An arrangement is a decision by the Executive Board that assures a member that it will be able to make purchases or receive disbursements from the IMF in accordance with the terms of the decision during a specified period of time and up to a specified amount. Member countries request an arrangement under one or more of several IMF financing facilities or policies, described below. These arrangements can be either on concessional or non-concessional terms. In this respect, IMF terminology distinguishes between "purchases," which relate to non-concessional lending, and "disbursements," which related to concessional lending.

IMF lending under arrangements takes place in the context of an economic adjustment program implemented by the member country to resolve its balance of payments difficulties. The first disbursement takes place after the Executive Board has approved the arrangement. Subsequent disbursements under an arrangement are phased on a quarterly or semi-annual basis and are conditional upon satisfactory progress in implementing the economic program. For this purpose, specific performance criteria and other conditions are set in the economic program (see discussion below on conditionality), and disbursements are conditional upon observance of these criteria.

When a member seeks an IMF-supported program, but does not face a pressing balance of payments need, it may treat a IMF arrangement as precautionary—a pure "stand by"—which provides the right, conditional on implementation of specific policies, to make drawings should the need arise.[40] Members retain and accumulate the rights to make drawings during the period of the arrangement, provided they have observed all the performance criteria for each drawing.

Table 3.1. The IMF's Lending Capacity
(in billions of SDRs unless otherwise stated; end-of-period)

		2001	2002	2003	2004	2005
I.	**Total resources**	**217.1**	**218.1**	**219.1**	**220.6**	**221.1**
	Members' currencies	209.0	210.3	211.3	213.1	213.4
	SDR holdings	1.5	1.2	1.1	0.8	1.1
	Gold holdings	5.9	5.9	5.9	5.9	5.9
	Other assets	0.7	0.8	0.9	0.8	0.8
	Available under GAB/NAB activation	-	-	-	-	-
II.	Less: Non-usable resources	114.7	117.9	118.4	109.2	75.9
	Of which: Credit oustanding	53.5	63.6	65.0	55.4	28.4
III.	**Equals: Usable resources**	**102.5**	**100.2**	**100.7**	**111.3**	**145.2**
IV.	Less: Undrawn balances under GRA arrangements	25.8	31.9	22.8	19.4	12.7
V.	**Equals: Uncommitted usable resources**	**76.7**	**68.3**	**77.9**	**91.9**	**132.5**
VI.	Plus: Repurchases one year forward	15.2	19.0	9.2	12.9	8.0
VII.	Less: Prudential balance	30.9	32.6	32.8	32.8	34.1
VIII.	**Equals: One-year forward commitment capacity**	**61.0**	**54.7**	**54.2**	**71.9**	**106.4**
	Memorandum items:					
	Potential GAB/NAB borrowing	34.0	34.0	34.0	34.0	34.0
	Quotas of members that finance IMF transactions	154.7	163.1	164.1	164.1	170.5
	Liquid liabilities	56.9	66.1	66.5	55.7	28.6
	Liquidity ratio (in percent)	114.9	83.8	104.2	149.5	411.3
	US$ per SDR	1.25673	1.35952	1.48597	1.55301	1.42927

Source: Finance Department

Outright Purchases

Under certain circumstances, the IMF lends outside of an arrangement with a borrowing member country. Purchases made in the absence of an arrangement are called "outright purchases." Outright purchases apply to first credit tranche borrowing under the credit tranches (although such borrowing normally does take place in the context of an arrangement), to emergency assistance for natural disasters or to post-conflict countries, and to temporary net export shortfall-financing under the Compensatory Financing Facility (see below).[41] IMF lending in these circumstances does not require that the country adopt an economic adjustment program, and therefore disbursements are not subject to phasing and performance criteria.[42] Members would be required only to describe the general policies they intend to pursue to resolve their balance of payments problem, including their intention to avoid introducing or intensifying exchange and trade restrictions. Loans are approved and disbursed if the IMF is satisfied that the member will cooperate in an effort to find, where appropriate, solutions for its balance of payments difficulties.

Program Design

When member countries express a need for IMF financing, discussions begin between IMF staff and the country authorities on an economic program that could be supported by the IMF (in circumstances where an economic program is required). Discussions cover, among other things, the type of arrangement to be requested and the lending facility to be used, the policies to be pursued during the program period, the level and phasing of purchases or drawings, and the performance criteria and other types of conditionality to be used in monitoring the implementation of the program. It is understood that the economic program

is entirely that of the country authorities and that the authorities are seeking IMF-support for their program. This country ownership of the economic program is critical to build domestic support for the adjustment effort and increases the chances that the program will be successfully implemented.

Approval of an Arrangement

Following the staff's agreement that the authorities' program is adequate and realistic, the member submits a request for an arrangement from the IMF. The request takes the form of a Letter of Intent (LOI) from the authorities to the Managing Director of the IMF, often accompanied by a more detailed Memorandum on Economic and Financial Policies (MEFP) and a Technical Memorandum of Understanding (TMU). These documents are prepared by the authorities with the cooperation and assistance of the IMF staff. They set out the agreed policy goals and strategies in the economic program, as well as conditionality and how observance will be monitored. In exceptional cases, members may communicate confidential policy understandings to the IMF in a side letter addressed to the Managing Director and disclosed to the Executive Board in a restricted session. The use of side letters will normally be limited to cases in which the premature release of the information would cause adverse market reactions or undermine the country authorities' efforts to prepare the groundwork for a measure.

The documents submitted by the authorities are accompanied by a report prepared by the staff that verifies the balance of payments need and assesses the appropriateness of the program in light of the nature of the country's balance of payments difficulties, and constitute the basis for an Executive Board decision on the request. These documents need to assure the Board that the member's program is consistent with the IMF's provisions and that the member is committed to carry out policies that will solve the balance of payments problems. Programs are approved by the IMF on the understanding that the member's representations are accurate.

Program Review

Upon approval of the arrangement, the authorities may make the first purchase. Subsequent purchases are normally contingent on the observance of performance criteria and other types of conditionality. However, some purchases do not require a review, e.g., in case of a Stand-By Arrangement that has quarterly purchases but semi-annual reviews. If a review is required, the IMF reviews program implementation prior to the purchase to ascertain whether the relevant conditions for that purchase have been observed. These reviews also have a forward-looking element and also allow for the assessment of progress on policies that cannot easily be quantified or defined. If the reviews ascertain that performance criteria have been observed and the program remains on track to achieve its objectives, the purchase becomes available to the member. Their request, along with a staff report on the review, is considered by the Executive Board. Board approval of the authorities' request completes the review and the loan is then disbursed. In considering the authorities' request, the Executive Board takes into consideration the member's past performance (including observance of performance criteria and other conditionality), policy understandings for the future, and the need to safeguard IMF resources.

If one or more performance criteria are not observed, the authorities may request waivers of observance of each of the performance criteria that were not observed to enable the disbursement to take place. The Executive Board grants a waiver only if it is satisfied that, notwithstanding the nonobservance, the program will be successfully implemented, either because of the minor or temporary nature of the nonobservance or because of corrective actions taken by the authorities.

In certain instances, where the information necessary to assess observance of a performance criterion is not available, the member may request a waiver of applicability of that performance criterion. This happens for example in cases where a review is delayed, slips past a subsequent test date, and the later performance criteria become binding. Such a waiver can only be supported by the staff and granted by the Executive Board if they are satisfied that the program will be successfully implemented and there is no clear evidence that the performance criterion has not been met. Waivers of applicability allow a window within which the purchase associated with the review may made, despite the unavailability of relevant data. Such waivers do not, however, apply to purchases after the date specified in the waiver, which can only proceed if the relevant performance criteria are met or waivers of non-compliance are granted.

General Policies Governing the Use of IMF Resources

Reserve Tranche Policies

A member's reserve tranche position in the IMF is equal to the difference between the member's quota and the IMF's holdings of the member's currency, excluding any holdings of the currency stemming from the use of IMF credit. The reserve tranche position is initially 25 percent of quota, the amount of the capital subscription paid in reserve assets, but fluctuates with members' borrowing from or lending to the IMF. The IMF pays interest (remuneration) on members' reserve tranche positions, except on a small portion equal to 25 percent of the member's quota on April 1, 1978—that part of the quota that was paid in gold prior to the Second Amendment of the Articles of Agreement.* The basic rate of remuneration is equal to the SDR interest rate, which is a market-determined rate. For countries that joined the IMF after April 1, 1978, the unremunerated reserve tranche is determined in two steps—first, the average unremunerated reserve tranche of all other members as a percent of their quota is calculated on the date the new members joined the IMF; and second, this percentage is applied to the new members' quotas to obtain the new members' unremunerated reserve tranche. The unremunerated reserve tranche is fixed in nominal terms, so it declines as a percentage of quota when quotas are raised.

The reserve tranche position forms part of the member's foreign exchange reserves, as the member country may draw upon it at any time.[43] Reserve tranche purchases constitute use of IMF resources, but are not subject to conditionality, interest charges, or repurchase expectations or obligations. A member may draw on its reserve tranche before making use of IMF credit, or it may choose to use IMF credit without drawing on its reserve tranche.

Access Policy

While surveillance is a preventive tool, access to IMF resources under appropriate terms and conditions serves to assist members who find themselves in balance of payments difficulties.[44] Defining an appropriate access policy is thus a key element of the IMF's efforts to help resolve economic and financial crises. Access policies are reviewed every two years by the Executive Board, taking into consideration the magnitude of members' balance of payments problems and developments in the IMF's liquidity position.[45]

Access limits under the IMF's different lending facilities are summarized in Table 3.2. These limits do not constitute targets or entitlements. The actual amount of access in individual cases will vary according to the circumstances of the borrower in accordance with criteria established by the Executive Board, and is determined on a case-by-case basis. Three general considerations govern the actual amount of IMF resources that a member may borrow:

- The member's actual or potential need for resources from the IMF, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves.
- The ability of the member to service its indebtedness to the Fund, including the strength of the adjustment program.
- The amount of the member's outstanding use of IMF credit and its past record in using and repaying IMF resources.

Exceptional Access

The possibility of exceptional access to IMF resources—access above the normal limits indicated previously—has always existed. During the Mexican crisis of 1994-95, the Asian crises of 1997-98, and subsequently, the IMF in several cases provided financing in amounts well above the access limits that normally apply to SBA or EFF arrangements.

The Executive Board formalized conditions for the use of exceptional access in September 2002 and March 2003, when it confirmed that such access will sometimes be necessary, particularly if the IMF is to provide meaningful assistance to countries facing a capital account crisis. There is a presumption that exceptional access will be provided under the SRF. Exceptional access needs to be justified in light of the following four criteria:

- The member is experiencing exceptional balance of payments pressures on the capital account resulting in the need for

* The gold tranche is not remunerated, since gold held by the IMF does not earn interest income that could be passed on to the membership.

IMF financing that cannot be met within the normal access limits.

- A rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable.
- The member has good prospects of regaining access to private capital markets within the time frame that IMF resources would be outstanding, so that the IMF's financing would provide a bridge to this access.
- The policy program of the member country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment. [46]

The procedures for decision-making on all requests for exceptional access, not just those involving capital account crises, were reviewed in 2003 and 2005. The changes emphasize early consultation with the Executive Board in cases where new or augmented exceptional access to IMF resources may be needed, including through informal meetings prior to Board consideration of the request. The evaluation of a country's eligibility for exceptional access can be presented to the Board as part of the staff report on the authorities' request for IMF resources. Finally, as a rule, there would be an ex post evaluation of programs with exceptional access within one year of the end of the arrangement.[47]

Terms of IMF Lending

Loans from the GRA carry a basic rate of charge that may be supplemented by surcharges, service charges, and commitment fees (see Table 3.2). [48] The basic rate of charge is determined as a margin in basis points above the weekly interest rate on SDRs, and therefore fluctuates with the market interest rates on which the SDR rate is based. It is set at the beginning of each financial year at a level calculated to achieve a targeted net income for that financial year, and is reviewed mid-year.

Surcharges are imposed on borrowing under the credit tranches, the EFF, and the SRF in order to discourage large use of IMF resources. Under the SRF, the surcharges are higher and increase over time in order to encourage early repayment of the loans. Surcharges do not apply to loans under the CFF, Emergency Assistance Policy, or the PRGF.

Commitment fees are paid on GRA funds committed under an IMF arrangement, but these are refunded to the extent that purchases are made. They are not refunded in cases of precautionary arrangements, as funds are not drawn.

All borrowing from the IMF is subject to pre-determined repayment schedules, which are the borrowing member's repayment obligations. However, since the IMF's resources are for financing only temporary balance of payments needs and they are of a revolving character, the Articles of Agreement stipulate that borrowing members are expected to repay their loans as their balance of payments and reserve position improves.[49] Accordingly, borrowing from the IMF, except under the Emergency Assistance Policy and the PRGF, are subject to pre-determined repurchase expectations schedules, as set out in Table 3.2, which the member is expected to meet if its external position is stronger than had been expected at the time the arrangement was approved.

A failure to meet a repurchase expectation results in the suspension of further lending to the member country. The suspension includes lending under the PRGF and under existing arrangements. However, the member would not be in default of its obligations to the IMF. Default arises only when the member does not meet a repayment obligation. However, the IMF may, upon request by a borrowing member, amend the schedule of repurchase expectations if the member's external position is judged to be not sufficiently strong for payments to be made in accordance with that schedule.

Conditionality

Conditionality refers to policies and actions that a borrowing member agrees to carry out as a condition for the use of IMF resources.[50] The purpose of conditionality is to ensure assistance to members to resolve their balance of payments crisis in a manner that is consistent with the IMF's Articles and that establishes adequate safeguards for the temporary use of the IMF's resources. The key principles guiding the design and setting of conditionality are:

- National ownership of reform programs.
- Parsimony in program-related conditions.

- Tailoring of programs to a member's circumstances.
- Effective coordination with other multilateral institutions.
- Clarity in the specification of conditions.

Conditionality is understood as the more stringent conditions that are applied to purchases in the upper credit tranches. First credit tranche conditions apply to outright purchases and to Stand-By Arrangements that do not extend credit beyond the first credit tranche, and the term "conditionality" is not normally used in this context.

Conditionality may take the form of prior actions, performance criteria, indicative targets, and structural benchmarks:

- **Prior actions.** these are policy measures that the member country may be expected to adopt prior to the IMF's approval of an arrangement, completion of a review, or the granting of a waiver with respect to a performance criterion, when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures. The normal practice is that all prior actions must be carried out at least five working days before the Board discussion to which they relate.
- **Performance Criteria.** A performance criterion is a variable or measure whose observance or implementation is established as a formal condition for the making of purchases or disbursements under an IMF arrangement. Performance criteria should apply to clearly-specified variables or measures that can be objectively monitored and that are so critical for the achievement of the program goals or for monitoring implementation that purchases or disbursements under the arrangement should be interrupted in cases of nonobservance. There are two types of performance criteria: quantitative and structural, the former covering the macroeconomic elements of the program and the latter covering the structural elements. Quantitative performance criteria often contain embedded adjusters that automatically adjust the program targets for the relevant variable or measure to take into account pre-specified developments beyond the control of the authorities.
- **Indicative Targets.** These may be established because of substantial uncertainty about economic trends and converted to performance criteria as uncertainty is reduced. Indicative targets may also be established in addition to performance criteria as quantitative indicators to assess the member's progress in meeting the objectives of a program.
- **Structural Benchmarks**. A measure may be established as a structural benchmark where it cannot be specified in terms that may be objectively monitored, or where its non-implementation would not, by itself, warrant an interruption of purchases or disbursements under an arrangement. They are intended to serve as clear markers in the assessment of progress in the implementation of critical structural reforms. Noncompliance does not require formal waivers by the Executive Board.

In recent years the IMF has been seeking to streamline the number of conditions attached to its loans. Conditions are established only regarding measures that are critical for the achievement of the goals of the member's program or for monitoring the implementation of the program, or that are necessary for the implementation of specific provisions of the Articles of Agreement. They normally consist of measures that are within the IMF's core areas of responsibility, although measures may be included in other areas if they are macro-relevant and critical. The IMF's core areas of responsibility in this context are macroeconomic stabilization; monetary; fiscal, and exchange rate policies, including the underlying institutional arrangements and closely related structural measures; and financial system issues related to the functioning of domestic and international financial markets.

Overdue Financial Obligations to the IMF

The IMF's strategy on overdue obligations comprises three elements: prevention, intensified collaboration (including the rights approach), and remedial measures.

Preventive measures include IMF surveillance of members' economic policies, policy conditionality, technical assistance, the assurance of adequate balance of payments financing for members under IMF-supported programs, and other measures to

protect the IMF's resources, including safeguards assessments of members' central banks.

As part of an intensified collaboration, staff-monitored programs and rights accumulation programs (RAPs) help members in arrears to establish a track record on policies and payments, leading to eventual clearance of arrears to the IMF.

Remedial measures are applied—using an escalating timetable—to member countries with overdue obligations that do not actively cooperate with the IMF to resolve their arrears problems.[51] The intensity of remedial measures increases according to the timetable, although the country specific circumstances are taken into account. For example, civil conflicts, the absence of a functioning government, or international sanctions may prevent the Fund from assessing the member's cooperation, thereby the application of remedial measures may be postponed. As long as a member remains in payments arrears to Fund, it has no access to the Fund's general resources, HIPC or PRGF-ESF resources. Increasingly severe sanctions are invoked as such arrears become more protracted, which could culminate in a suspension of the member's voting and representation rights and eventually in the compulsory withdrawal of the member from the IMF if the member is deemed to be non-cooperating with the IMF and remains non-cooperating. Technical assistance is also suspended once the member is declared non-cooperating.

To address the burden of overdue obligations to the IMF, the Fund has put in place a "burden-sharing" mechanism. Under this mechanism, the financial consequences for the IMF stemming from overdue financial obligations of members are shared equally between debtor and creditor member countries, with the sharing being applied in a simultaneous and symmetric fashion. The interest rate paid to creditors on their reserve tranche positions, normally the SDR rate, is adjusted downward by this mechanism, while the basic rate of charge is adjusted upward for borrowing countries. Arrears to the Trust Fund and the PRGF-ESF Trust are met by transfers from the Reserve Account of the PRGF-ESF Trust, thereby reducing the amount of resources that would accrue to for the benefit of the IMF's low-income members.

In 1990, the IMF established the rights accumulation approach to help members who are in arrears to the IMF, and who are cooperating with the IMF, mobilize bilateral and multilateral support to clear their arrears to the IMF and other creditors. Under a Rights Accumulation Program (RAP), a member earns rights, conditioned upon satisfactory performance under an adjustment program monitored by the IMF. These rights accumulate toward a disbursement from the IMF once the member's overdue obligations have been cleared and upon approval of a successor arrangement with the IMF. RAPs are usually of a three-year duration, although there is flexibility to tailor the length of the track record to the member's specific circumstances. The member is expected, at a minimum, to remain current with respect to obligations to the IMF and the World Bank falling due during the period of the rights accumulation program. A support group of donors is established to mobilize the financial resources necessary to clear the member's arrears. This is necessary as a form of bridge-financing pending the completion of the RAP, but the support can extend beyond the scope of the RAP in cases where arrears exceed the borrowing ceilings. Eligibility for the rights approach is limited to the 11 members who were in protracted arrears to the IMF at the end of 1989. Of these, only Liberia, Somalia, and Sudan remain with protracted arrears. Another member, Zimbabwe, has protracted arrears to the PRGF Trust.

Lending into Arrears

While the IMF is concerned with all forms of arrears (whether domestic or external, private or sovereign), arrears to external creditors have a distinctive place in IMF policies. The IMF has acknowledged that the incurrence of external payments arrears is perhaps the most disorderly way of responding to balance of payments pressures, as they undermine relations with creditors and damage the international trade and payments system. For these reasons, the IMF has developed specific policies for dealing with external payments arrears in the context of the use of IMF resources. More specifically, the lending into arrears (LIA) policy applies to arrears incurred to private creditors, whereas the IMF's general policy on the non-toleration of arrears applies to arrears incurred to multilateral and official bilateral creditors.

The IMF does not to lend to countries that are not making a good-faith effort to eliminate their arrears with creditors.[52] However, under certain circumstances, the IMF will lend to member countries that have defaulted on their debt service payments to private creditors, or that have imposed exchange controls that have resulted in payments arrears to private creditors by non-sovereign borrowers. Lending into sovereign arrears to private

creditors is undertaken on a case-by-case basis and only where:

- Prompt IMF support is considered essential for the successful implementation of the member's adjustment program; and
- The member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with its creditors.

In addition, lending into non-sovereign arrears stemming from the imposition of exchange controls also requires a finding that good prospects exist for the removal of exchange controls.

The "good faith" criterion is applied flexibly to accommodate the characteristics of each specific case, to avoid putting debtors at a disadvantage in the negotiations with creditors, and to avoid prolonged negotiations that could hamper the ability of the IMF to provide timely assistance. The following principles guide the IMF's judgments about members' "good faith" efforts:

- First, when a member has reached a judgment that a restructuring of its debt is necessary, it should engage in an early dialogue with its creditors, which should continue until the restructuring is complete.
- Second, the member should share relevant, non-confidential information with all creditors on a timely basis.
- Third, the member should provide creditors with an early opportunity to give input on the design of restructuring strategies and the design of individual instruments.

The modalities guiding the debtor's dialogue with its private creditors are normally tailored to the specific features of each individual case. However, the debtor is expected to initiate a dialogue with its creditors prior to agreeing on an IMF-supported program.

Purchases made while a member has outstanding arrears are subject to financing assurances reviews. These are conducted in cases where the IMF is providing financial assistance to a member that has outstanding sovereign external payments arrears to private creditors or that, by virtue of the imposition of exchange controls, has outstanding non-sovereign external payments arrears. The financing assurances review determines whether adequate safeguards exist for the further use of IMF resources and whether the member's adjustment efforts are undermined by developments in creditor-debtor relations. Every purchase or disbursement made available after the approval of an arrangement is, while such arrears remain outstanding, made subject to the completion of a financing assurances review. Financing assurances reviews may also be established where the member has outstanding arrears to official creditors.

Prolonged Use of IMF Resources and Ex Post Assessments

IMF balance of payments support is intended to be of a short-term nature. However, in some cases long-term IMF financial engagement can help member countries to address deep-seated problems that, by their nature, require many years to resolve. These problems have been particularly prevalent in low-income countries and countries in transition. However, at times prolonged use of IMF resources can stem from inadequate progress in dealing with key economic problems, which could reflect inadequate program design and implementation.[53] Prolonged use can compromise the revolving character of IMF resources.

A country is considered to be a prolonged user when it has spent 7 or more of the last 10 years under an IMF-supported program financed from the IMF's general resources or once the country completes two consecutive concessional arrangements. However, this excludes precautionary arrangements that remain undrawn or access of the Policy Support Instrument (PSI). Prolonged users are reviewed under an Ex Post Assessments (EPA). To avoid frequent EPAs in a single country, which is less likely to offer new insights, prolonged users are reviewed under an EPA at roughly five year intervals.[54]

An EPA provides the IMF with the opportunity to step back from ongoing program relations with a member country and to take a fresh look at the overall strategic approach with the focus on identifying lessons for future IMF involvement. It involves a longer-term analysis of the economic problems facing the country, a critical and frank review of progress made during the period of IMF-supported programs, and a forward-looking assessment that takes into account lessons learned and that presents a strategy for future IMF engagement with the country. Where appropriate, the assessment presents an explicit strategy for the country to exit from the use of IMF resources. The assessment reflects input from the World Bank, and may also draw on outside experts.

The assessment is undertaken by an inter-departmental staff team that is usually different from

the mission team and led by a mission chief from a department other than the home area department. The EPA report is usually discussed by the Board jointly with either the Article IV consultation when the arrangement is substantially complete or where this is not feasible, with the last program review. In exceptional cases, a stand-alone discussion can be considered.

Misreporting and Noncomplying Purchases and Disbursements

All IMF loan disbursements to a member are made on the condition that the data or other information provided by the member pertaining to the purchase or disbursement are accurate. [55] Misreporting occurs when the information provided by the member is inaccurate, regardless of the source of the inaccuracy. Misreporting may stem from administrative lapses, weaknesses in statistical capacity, inherent subjectivity of certain data, negligence, and deliberate misrepresentation. A purchase or disbursement that a member was not entitled to under the terms of the arrangement or decision governing the purchase or disbursement is called a "noncomplying purchase" (or in the case of a disbursement, a "noncomplying disbursement").The purchase or disbursement was made because, on the basis of the information provided to it at the time, the IMF was satisfied that all performance criteria or other conditions applicable to the purchase or disbursement had been observed, but this information later proved to be incorrect.

A member receiving IMF resources on the basis of incorrect information is expected to repurchase or reimburse the IMF normally within 30 days, unless the Executive Board grants a waiver.* Waivers may be granted only if the deviation from the relevant performance criterion or other condition is minor or temporary, or if the member has adopted additional policy measures to achieve the objectives of the economic program supported by the IMF. Failure to repay within the specified time period will lead to a suspension of further disbursements or repurchases under the arrangement, and suspension of further lending to the member country.

Modifications to make misreporting policies less onerous in *de minimis* cases were introduced in July 2006, as misreporting procedures could be disproportionately heavy for minor deviations from a performance criterion or other specified condition (e.g., prior actions).[56] In addition to reducing the stigma and burden of misreporting, these modifications contribute to the general objective of streamlining IMF procedures expressed in the MTS. To be considered *de minimis*, a deviation would be so small as to be trivial with no impact on the assessment of performance under the member's program. However, a decision whether a particular case should be considered to be *de minimis* will require judgment—first by management and staff, and ultimately by the Executive Board. In case of a *de minimis* misreporting, a waiver of a performance criterion or other specified condition is granted, in accordance with regular procedures. However, changes are applied to the regular misreporting procedures to reduce the administrative and publication requirements.

Safeguards on the Use of IMF Resources

The IMF has put in place a policy of safeguards assessments of central banks in member countries as an *ex ante* mechanism to help prevent the possible misuse of IMF resources, and to minimize the possibility of misreporting.[57] This policy was introduced on an experimental basis in March 2000 and adopted as a permanent policy in March 2002. The safeguards policy complements other policies to safeguard the use of IMF resources, such as conditionality and monitoring, technical assistance, transparency and governance initiatives, and the policy on misreporting. It has been widely accepted by central banks, and has helped improve their operations and accounting procedures while enhancing the IMF's reputation as a prudent lender. However, safeguards assessments are not intended to be an institution-building exercise; IMF conditionality in this area is limited to measures highly relevant to safeguarding the use of IMF resources. Nonetheless, where critical vulnerabilities are identified, concrete corrective measures may need to be adopted as a condition for IMF financing.

The assessments have the objective of providing reasonable assurance to the IMF that the central bank's control, accounting, reporting, and auditing systems in place to manage resources, including IMF disbursements, are adequate to ensure the integrity of operations. Assessments cover five key areas: the

* In practice, where waivers have not been granted, noncomplying disbursements have often been repaid over a period longer than 30 days.

external audit mechanism, the legal structure and independence of the central bank, the financial reporting framework, the internal audit mechanism, and the system of internal controls. A key element of the safeguards policy is that central banks of member countries making use of IMF resources publish annual financial statements independently audited by auditors external to the central banks in accordance with internationally accepted auditing standards.

All member countries receiving a new IMF arrangement are subject to a safeguards assessment of the central bank.[58] The Finance Department conducts the assessment in consultation with the Area Departments. The assessment is usually initiated three months before the anticipated date of Board discussion of a new arrangement. It entails, among other things, a review of documents provided by the central bank, discussions with the central bank's external auditors, a safeguards assessment mission if needed, and preparation of a report and a summary of findings and recommendations of the assessment. The assessment should preferably be completed prior to the date of the Executive Board's approval of the arrangement, but in any case no later than the first program review under the arrangement. Commitments made by the authorities to implement the recommendations of safeguards assessments reports are monitored in conjunction with overall program conditionality.

The safeguards frameworks of central banks are monitored for as long as Fund credit remains outstanding. The Finance Department, in consultation with Area Departments, reviews safeguards-related developments at central banks, particularly with respect to the external audit mechanism. The findings of the monitoring process may result in new recommendations to address emerging vulnerabilities in a central bank's safeguards framework. The results of initial safeguards assessments and the monitoring process form the basis for an updated assessment in case of successor IMF arrangements.

Financing Facilities and Arrangements

Member countries can access the IMF's resources through a variety of channels.[59] The original and basic channel is the use of quota-based resources through what is known as the credit tranches. Any member is eligible to request IMF's resources in the credit tranches at any time simply by representing that it has a balance of payments need. Members may also access the IMF's resources through a number of special facilities or policies that the IMF has set up to accommodate the specific balance of payments needs and circumstances of the membership. These have eligibility requirements beyond a mere general balance of payments need.

The channel of access a member selects depends on the particular circumstances of the country. The member normally would make a decision in consultation with IMF staff. The different channels of access are explained below. All, except the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF), provide access to the general resources of the IMF. As the IMF's Articles of Agreement require that a uniform rate of charge for credit out of the General Resources Account, the PRGF and the ESF have been established under a separate trust account (the PRGF-ESF Trust) administered by the IMF to provide highly concessional loan resources to low-income countries.[60]

The facilities and arrangements described below are ones that currently exist. In the past, several special purpose facilities and policies have been created that were subsequently eliminated.[61] For example, the Contingent Credit Lines facility—which was created in 1999 to provide automatic financing to members who pre-qualified, in order to prevent a capital account crisis—was never used and was allowed to lapse at the end of November 2003. Under the Medium-Term Strategy, the IMF is exploring the possibility of creating a new liquidity instrument to provide high access contingent financing to emerging market economies, and is also considering ways to enhance its support of regional and other arrangements for pooling reserves.

The Credit Tranches

Initially the IMF made credit available to its members in tranches, each equal to 25 percent of quota.[62] However, as cumulative access limits in the credit tranches are now substantially above 100 percent of quota, a distinction is now drawn simply between first credit tranche borrowing and upper credit tranche borrowing, the latter referring to any borrowing above the first credit tranche. The distinction is necessary as first credit tranche borrowing is not subject to conditionality, i.e., it is usually available immediately upon request to member countries. Access to IMF resources in the credit tranches may be through outright purchases or through a formal arrangement. Outright purchases are limited to the first credit tranche, while upper credit

tranche borrowing requires a formal arrangement such as a Stand-By Arrangement.

Stand-By Arrangement

Stand-By Arrangements (SBA) are the usual vehicle for members to access upper credit tranche financing. Requests for resources in the upper credit tranches require substantial justification in the form of a balance of payments need and the authorities' promise of appropriate adjustment policies that return the economy to a sustainable balance of payments position over a specific time-frame.[63] First credit tranche borrowing may also be made through an SBA, but it is not subject to phasing and performance clauses—unless the member has outstanding purchases under other facilities in the GRA.

The normal period for an SBA is 12 to 18 months, but it may extend up to a maximum of three years. All upper credit tranche borrowing is subject to phasing and observance of performance criteria, normally on a quarterly basis. Purchases in the credit tranches are subject to an annual limit of 100 percent of quota and a cumulative limit of 300 percent of quota (Table 3.2). However, the IMF may grant access beyond these limits in exceptional circumstances.

Extended Fund Facility

The IMF established the Extended Fund Facility (EFF) in 1974 as a vehicle for providing medium-term assistance to (a) an economy suffering serious payments imbalances relating to structural maladjustments in production and trade and where price and cost distortions have been widespread, or (b) an economy characterized by slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy.[64] The EFF was created in view of the fact that balance of payments problems could have structural origins and would require a longer period of adjustment. Consequently, the EFF offers longer repayment periods than those under credit tranche policies, but requires more action in the structural area than is typical of Stand-By Arrangements.

Members whose balance of payments problems are of a medium-term character as described above, and who have an appropriately strong structural reform program to deal with the embedded institutional or economic weaknesses, may access the resources in the EFF through an *Extended Arrangement*. These are normally three-year arrangements, but they may extend for a fourth year. Purchases and performance criteria are phased on a quarterly or semi-annual basis. EFF purchases are subject to an annual limit of 100 percent of quota and a cumulative limit of 300 percent of quota, but the IMF may grant access beyond these limits in exceptional circumstances.

Table 3.2. Terms and Conditions of IMF Lending

Credit Facility	Conditions	Phasing and Monitoring	Access Limits	Charges[1]	Repurchase (Repayment) Terms[2]		
					Obligation Schedule (years)	Expectation Schedule (years)	Installments
The Credit Tranches (1952)	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions	Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[3]	3 ¼-5	2 ¼-4	Quarterly
Extended Fund Facility (1974)	Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions	Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[3]	4 ½-10	4 ½-7	Semiannual
Supplemental Reserve Facility (1997)	Available for capital account crisis only in context of Stand-By or Extended Arrangements with associated program and with strengthened policies to address loss of market confidence	Facility available for one year, with two or more purchases (disbursements)	No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit	Basic rate plus surcharge (300 basis points rising by 50 basis points a year after first disbursement and every 6 months thereafter to a maximum of 500 basis points)	2 ½-3	2-2 ½	Semiannual
Compensatory Financing Facility (1988)	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory	Stand-alone disbursements or, if there is an arrangement, disbursements are in two phases	45% of quota each for export and cereal components. Combined limit of 55% of quota for both components	Basic rate	3 ¼-5	2 ¼- 4	Quarterly

Table 3.2. Terms and Conditions of IMF Lending (concluded)

Credit Facility	Conditions	Phasing and Monitoring	Access Limits	Charges[1]	Repurchase (Repayment) Terms[2]		
					Obligation Schedule (years)	Expectation Schedule (years)	Installments
Emergency Assistance (1) Natural disasters (1962) (2) Post-Conflict (1995)	(1) Reasonable efforts to overcome balance of payments difficulties (2) Focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF	None, although post conflict assistance can be segmented into two or more purchases	Generally limited to 25% of quota, though larger amounts can be made available in exceptional cases	Basic rate. Subject to resource availability, PRGF-eligible members would—upon request—receive a subsidy to bring the rate of charge on the financial assistance to 0.5% per annum from resources contributed to an administered account.	3 ¼-5	Not applicable	Quarterly
Poverty Reduction and Growth Facility (1999)	Adopt 3-year PRGF-supported program. PRGF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process, and integrating macroeconomic, structural, and poverty reduction policies	Semiannual disbursements (or quarterly where closer monitoring is needed) contingent on observance of performance criteria and reviews	140% of quota; 185% of quota in exceptional circumstances	0.50%	5 ½-10	Not applicable	Semiannual
Exogenous Shocks Facility (2005)	Have a balance of payments need whose primary source is a sudden and exogenous shock. Available in support of a macroeconomic and structural adjustment program, but only if structural reforms needed to adjust to the shock are not of the type that would normally be supported by a PRGF arrangement.	Semiannual or quarterly disbursements, contingent on observance of performance criteria and reviews.	50% of quota, though larger amounts can be made available in exceptional circumstances.	0.50%	5 ½-10	Not applicable	Semiannual

Source: IMF, Finance Department

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

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

[3]Surcharges are applied to the combined amount of outstanding credit resulting from purchases made after November 2000 in the credit tranches and under the EFF.

Supplemental Reserve Facility

The IMF established the Supplemental Reserve Facility (SRF) in December 1997 to provide financing for member countries experiencing exceptional balance of payments problems owing to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves.[65] There has to be a reasonable expectation of an early correction of the difficulties based on the implementation of adjustment policies and adequate financing. The SRF is likely to be utilized in cases where the magnitude of the outflows may create a risk of contagion that could pose a potential threat to the international monetary system. Assistance under the SRF is made available if four criteria are met, specifically exceptional balance of payments pressures in the capital account, an expectation of a re-entry to capital markets, a high probability that debt will remain sustainable, and strong program design and implementation prospects.[66] In approving a request for the use of IMF resources under the SRF, the IMF takes into account the financing provided by other creditors, both official and private.

Access under the SRF is separate from the access limits under the credit tranches and the EFF, and has no explicit limits of its own. SRF resources are provided under Stand-By or Extended Arrangements, to supplement credit tranche or EFF resources, when projected access to credit tranche or EFF resources would exceed the annual or cumulative limits under these facilities. There is a strong presumption that exceptional access will be provided under the SRF in capital account crises. However, access would generally be within access limits in cases of debt restructuring to avoid moral hazard. The conditionality in an arrangement involving the use of SRF resources is the same as that of the associated Stand-By or Extended Arrangement. The repurchase period for SRF resources is much shorter than that for credit tranche and EFF resources, reflecting the expectation of an early correction and a quicker turnaround in the balance of payments.

Compensatory Financing Facility

Under the Compensatory Financing Facility (CFF), the IMF may provide resources to cover export shortfalls or excess cereal import costs that are temporary and arise from events beyond the members' control.[67] Access to CFF resources may be stand-alone or in conjunction with access to other resources under a Stand-By, Extended, or PRGF Arrangement.

Stand-alone access is granted where the member's balance of payments position is deemed satisfactory apart from the temporary export shortfall or cereal import excess. In this case, access takes the form of outright purchases. Usually the entire amount of the financing is made available in one purchase. However, if estimated data are used for 9 months or more of the 12-month period for which the export shortfall is calculated (in accordance with a pre-determined formula), the purchase is made in two tranches, with the amount of the second purchase adjusted if necessary on the basis of actual data for at least 6 months of the 12-month period.

Where the member has a balance of payments need beyond the need caused by the effect of an export shortfall or cereal import excess, the request for CFF resources will be considered in the context of approving a new arrangement, completing a review or determining that the program is on track. In this case, purchases after the initial purchase are subject to phasing and observance of the performance criteria specified in the associated arrangement.

Access under the CFF is subject to its own limits, which range from 45 percent of quota for each of the export shortfall and excess cereal import cost elements to a combined limit of 55 percent of quota. Such access does not count toward the access limits under the credit tranches and the EFF, but they do count for the purpose of determining the threshold for upper credit tranche conditionality. Thus a member with outstanding CFF purchases of 25 percent of quota or more is subject to upper credit tranche conditionality even on first credit tranche purchases under a Stand-By Arrangement.

Emergency Assistance Policy

The IMF may provide emergency assistance for natural disasters and to countries in post-conflict situations under the Emergency Assistance Policy.[68] Judgment on a member's eligibility for emergency assistance is made on a case-by-case basis.

In most cases where a member is afflicted by a natural disaster, assistance would be provided under the CFF, ESF, through Stand-By and Extended Arrangements, or through augmentations of existing PRGF arrangements. However, in those cases where a member cannot meet its immediate financing needs arising from a natural disaster without serious depletion of its external reserves, emergency assistance in the form of quick, outright purchases would be provided. Emergency Natural Disaster Assistance (ENDA) is designed to provide only limited foreign exchange required for immediate relief. Understandings with the member country are needed to ensure that inappropriate policies do not compound the problems caused by the natural disaster.

In 1995, the emergency assistance policy was expanded to cover post-conflict cases. Emergency Post Conflict Assistance (EPCA) is available for countries emerging from civil unrest or international armed conflict that are unable to implement regular IMF-supported programs because of damage to their institutional and administrative capacity, but that have sufficient capacity for planning and policy implementation and a demonstrated commitment on the part of the authorities. IMF assistance is provided to meet an urgent balance of payments need to help rebuild external reserves and meet essential external payments, as part of a concerted international effort to address the aftermath of the conflict in a comprehensive way. Conditions for such assistance include a statement of economic policies, a quantified macroeconomic framework to the extent possible, and a statement by the authorities of their intention to move as soon as possible to a SBA, extended arrangement or PRGF arrangement. However, the EPCA is also intended to play a catalytic role in post-conflict situations by attracting support from other official sources. The EPCA places heavy emphasis on institution building, also through increased technical assistance.

Access under the Emergency Assistance Policy is normally 25 percent of quota. An additional 25 percent of quota can be provided in exceptional circumstances, particularly where capacity rebuilding is slow and the member is not in a position to implement an IMF arrangement after about a year or more under a program supported by emergency assistance, and where there is sufficient evidence of the authorities' commitment to reform and capacity to implement policies. EPCA-supported programs can be as long as 3 years. The additional 25 percent of quota would normally be tranched, with each purchase requiring Executive Board approval and subject to satisfactory progress in rebuilding capacity and macroeconomic stability.[*] Access under the Emergency Assistance Policy does not count toward the limits under the credit tranches and the EFF, but they do count for the purpose of determining the threshold for upper credit tranche conditionality. Since 2001, purchases under the Emergency Assistance Policy can benefit from interest subsidies for PRGF-eligible countries, financed by grant contributions from bilateral donors to subsidize this interest rate down to 0.5 percent per year, subject to the availability of resources for this purpose.

Poverty Reduction and Growth Facility

The IMF put in place a concessional lending facility through the establishment of the Trust Fund in 1976. In 1986, the IMF established the Structural Adjustment Facility (SAF) to provide concessional assistance to low-income countries by recycling resources lent under the Trust Fund. This was followed in 1987 by the establishment of the Enhanced Structural Adjustment Facility (ESAF) to foster stronger adjustment and reform measures than those under the SAF and to augment its concessional lending resources. In 1999, the ESAF was re-named the Poverty Reduction and Growth Facility (PRGF), and the facility's objective was broadened to include an explicit focus on poverty reduction in the context of a comprehensive growth-oriented strategy.[69]

The PRGF is currently financed through bilateral loans and grants. However, in the near future the PRGF is due to become self-sustaining through the revolving use of resources accumulating in the Reserve Account of the PRGF-ESF Trust, possibly supplemented by additional loan resources.[70]

Eligibility is based principally on the IMF's assessment of a country's per capita income, drawing on the cutoff point for eligibility to World Bank concessional lending. PRGF loans are provided under three-year PRGF arrangements (which can be extended for a fourth year). Disbursements are

[*] Tranching is different from phasing in that purchases are not conditional upon observance of pre-specified performance criteria. Rather, requests for purchases are considered on their own individual merits.

normally on a semi-annual basis, and are subject to phasing and the observance of performance criteria. In cases where closer monitoring is needed, the arrangement may provide for quarterly phasing, performance criteria, and reviews.

An eligible country may borrow up to 140 percent of its quota under a three-year arrangement, and up to 185 percent of quota in exceptional circumstances. Unlike access to GRA facilities, there are no annual or cumulative access limits under the PRGF. There is a general presumption of declining access in successive PRGF arrangements. In March 2004 the Executive Board approved the following norms for access under successive PRGF arrangements: 90 and 65 percent for first and second arrangements, and 55, 45, 35, and 25 percent of quota for third, fourth, fifth, and subsequent arrangements. These norms are neither maxima nor entitlements. In addition, the Executive Board agreed that even lower access (such as 10 percent or less of quota) would be appropriate for countries that have limited balance of payments need for concessional resources. Access limits are reviewed by the Executive Board bi-annually.[71]

Exogenous Shocks Facility

The IMF approved the establishment of the Exogenous Shocks Facility (ESF) to become effective in January 2006. It strengthens the IMF's capacity to provide policy support to low-income countries and in recognition that exogenous shocks can have a significant adverse impact on poverty and growth.[72] The ESF is directed at PRGF-eligible members that do not have in place a PRGF arrangement and experience a sudden and exogenous shock. Countries with a PRGF arrangement would qualify for augmentation of access under that arrangement. The ESF aims to facilitate quick access to financing, while assisting the country's efforts to put in place an appropriate adjustment to the underlying shock and ensuring adequate safeguards for the use of PRGF-ESF Trust resources. It provides financing under an ESF arrangement for a maximum period of two years in support of a macroeconomic and structural adjustment program. A member may not have more than one ESF arrangement for the same shock, but resources committed under an ESF arrangement may be augmented to help the member meet a larger than expected balance of payments need. A member also may not receive financial assistance from the ESF and the PRGF at the same time.

To qualify for assistance under the ESF, a PRGF-eligible member must have a balance of payments need arising from a sudden and exogenous shock. An exogenous shock is understood to be an event beyond the control of the authorities, with a significant negative impact on the economy. There is no specific, pre-defined set of qualifying shocks. Examples of shocks that may qualify for the ESF are terms of trade shocks, natural disasters, shocks to demands for exports, or conflicts or crises in neighboring countries that may have adverse effects on the balance of payments. However, shocks resulting from the variability of aid flows would not normally qualify for the ESF, nor would balance of payments needs arising primarily from domestic policy slippages. With its focus on adjustment to the underlying shock, a program supported by the ESF will rely more on macroeconomic adjustment and likely be less ambitious in terms of structural reform than PRGF-supported programs. Nevertheless, structural issues considered important for adjustment to the shock, or for mitigating the impact of future shocks, are expected to be adequately addressed.

The terms and conditions of ESF-supported programs are similar to those of PRGF-supported programs. These programs must meet the standards required by upper credit tranche conditionality. However, structural reforms could be less ambitious than under a PRGF arrangement, comprising mainly structural issues deemed important for adjustment to the underlying shock. Disbursements may be at semi-annual or quarterly intervals, depending on factors such as the arrangement's duration, the balance of payments need, and administrative capacity constraints on the part of the authorities. Except for the disbursement available upon approval of the arrangement, subsequent disbursements are subject to phasing and the observance of performance criteria, and in most cases completion of a review. Furthermore, the member country must represent that it has an actual balance of payments need arising from a shock at the time of each disbursement. While the IMF will not challenge *ex ante* a member's representation of a balance of payments need, remedial action would be taken if it were later discovered that an ESF disbursement was made in the absence of a need, namely, the member may be expected to repay the IMF the amount of disbursement provided in the absence of the need.

Given the diverse nature of exogenous shocks and the uncertainty about their net impact on the balance of payments need, access will be assessed on a case-by-case basis. The actual access, determined at the time of the request for assistance, depends on the balance of payments need, the size and likely persistence of the shock, the strength of the adjustment program, projected response from donors, the outstanding use of credit from the IMF, and the member's record in using IMF credit in the past. However, the norm for annual access under the ESF is 25 percent of quota. The maximum limit on total outstanding access to ESF resources is 50 percent of quota, but this limit may be exceeded in exceptional circumstances. For low-income countries subject to a blending of concessional and non-concessional IMF financing, the annual access norm is 12.5 percent of quota under the ESF. Similar to the PRGF, loans under the ESF carry an annual interest rate of 0.5 percent, with repayments made semiannually, beginning 5½ years and ending 10 years after the disbursement.

Concessional lending under the ESF is administered by the IMF, as trustee, through the PRGF-ESF Trust. The Trust borrows from central banks, governments, and official institutions generally at market-related interest rates, and lends them on a pass-through basis to PRGF-eligible countries. The difference between the market-related interest rate paid to PRGF-ESF Trust lenders and the rate of interest paid by the borrowing members is financed by contributions from bilateral donors and the IMF's own resources.

Trade Integration Mechanism

The IMF is a strong advocate of multilateral trade liberalization, and has pressed for the completion of the Doha Round, as well as of earlier rounds of multilateral trade negotiations. To help advance the Doha Round discussions, in April 2004 the Executive Board approved the establishment of a Trade Integration Mechanism (TIM) to address balance of payments difficulties that may result from implementation of trade liberalization measures undertaken by other countries.[73]

Eligibility to use the TIM is limited to countries that experience balance of payments difficulties arising from trade liberalization measures introduced by other countries that result in more open market access for goods and services or that remove trade-distorting subsidies. Qualifying liberalization measures would normally be limited to measures introduced either under a World Trade Organization (WTO) agreement or on a non-discriminatory basis, irrespective of context. Members are not eligible to use the TIM for the adverse effects of their own trade liberalization measures that are not specific to multilateral trade negotiations, but these measures remain standard part of IMF-supported adjustment programs.

The TIM is not a new lending facility that will provide resources on special terms; it is a policy that will provide access under the IMF's existing facilities (SBA, EFF, or PRGF). The TIM may be accessed in conjunction with a new arrangement or in the context of a program review under an existing arrangement. Access will be governed by the access policies and the terms and conditions of the underlying arrangement through which the policy is activated. The amount of access is governed by an initial baseline projection of the impact of the trade measures, but it could be augmented by up to 10 percent under simplified procedures if the actual (ex post) balance of payments effect is larger than expected.

The TIM was envisaged to be a temporary policy that would lapse after the specified trade policies agreed under the Doha Round had been fully implemented. In light of the delays in advancing the Doha Round, it is expected that a decision on the duration of the TIM will be taken in light of the expected completion of the negotiations.[74]

Special Instruments

Special arrangements exist to review members' economic conditions and policies outside the framework of Article IV consultations and outside of IMF arrangements. These instruments serve special purposes, involve more intensive scrutiny of members' economic policies than under normal Article IV consultation procedures, and do not involve the use of IMF resources. These instruments comprise enhanced surveillance, rights-accumulation programs, staff-monitored programs, post-program monitoring, and the policy support instrument.

Enhanced Surveillance

Enhanced surveillance was developed in 1985 as a signaling device to assist members in addressing their debt problems with commercial creditors. The procedure facilitated commercial bank multi-year rescheduling agreements by providing private creditors with information about the member's economic program and progress in its

not just to mobilize external financing. Enhanced surveillance does not imply IMF approval or endorsement of the member's economic program. The procedure has not been used since the early 1990s.[75]

Rights-Accumulation Programs

The rights-accumulation program (RAP), established in 1990, allows members to resolve large and protracted arrears to the IMF in the context of the "rights approach" as part of the Fund's strengthened cooperative strategy on arrears.[76] Eligibility to the RAP is limited to the eleven members that had protracted arrears to the Fund at end-1989.* Under a RAP, member would earn rights towards a disbursement from the Fund once members' arrears to the Fund had been cleared, and upon the approval by the Executive Board of a successor Fund arrangement.[77]

A RAP adheres to the macroeconomic and structural policy standards consistent with upper credit tranche conditionality, but does not involve the use of IMF resources. A member would be expected to make maximum efforts to reduce its arrears to the Fund during the RAP, and would, at a minimum, remain current on obligations falling due to the Fund and the World Bank. The member would also be expected to obtain financing assurances from external creditors needed to finance its adjustment and reform program. The IMF monitors implementation based on quarterly performance targets. Observance of program targets serves to establish a track record of performance and cooperation prior to the clearance of arrears. The length of the RAP is normally three years, but with scope for variation in either direction on a case-by-case basis.

* These were Cambodia, Guyana, Honduras, Liberia, Panama, Peru, Sierra Leone, Somalia, Sudan, Vietnam, and Zambia. RAPs facilitated the clearance of arrears with Peru (1993), Sierra Leone (1994), and Zambia (1995), and with the availability of the approach having been extended, it remains available for Liberia, Somalia, and Sudan.

Staff-Monitored Programs

A staff-monitored program (SMP) may be used in cases where member countries need to establish a track record of policy implementation before discussions can begin on an IMF-supported economic program, or a re-activation of a program that has gone off-track.

An SMP closely resembles a formal IMF-supported program. However, it is an informal arrangement to monitor the implementation of the authorities' economic program without entailing Executive Board endorsement. It also does not have to meet the standards of upper credit tranche conditionality. SMPs' normal duration is 6 to 18 months, although longer durations are possible. Similar to a formal IMF-supported program, they are based on a quantitative macroeconomic framework and include quarterly performance benchmarks. Assessments are completed on a quarterly or semi-annual basis. The Executive Board has the opportunity to comment on SMPs during Article IV consultation discussions, informal country matters sessions, or it may also request formal discussion of an SMP that was submitted to it for information.

The policy content of an SMP is guided by previous country reports. If an SMP is initiated during or between Article IV consultations, the policy content is guided by the current or preceding Article IV consultation discussions; if an SMP is intended to reactivate IMF support after a program has gone off-track, it must be consistent with the achievement of the original or updated objectives of the IMF-supported program.

Post-Program Monitoring

In September 2000, the IMF introduced a policy of enhanced monitoring of economic developments and policies in member countries that have come to the end of their IMF arrangement and whose credit outstanding exceeds 100 percent of quota.[78] This post-program monitoring (PPM) was first applied to use of credit in the IMF's General Resources Account, but was expanded in March 2005 to include the use of resources in the Poverty Reduction and Growth Facility (PRGF).[79] PPM is not automatically triggered, but there is a presumption that the Managing Director will recommend it to the Executive Board when a member meets the relevant criteria. PPM may also be triggered if credit outstanding is less than 100 percent of quota, if there

are developments that suggest the need of such a process, particularly where developments call into question the member's progress toward external viability.

PPM is intended to provide an early warning of policies that could call into question a member's continued progress toward external viability, which could eventually imperil IMF resources or indicate that IMF resources are not being used for their intended purpose. It also serves as a mechanism for bringing these concerns to the attention of the authorities and the Board and stimulating action to improve the situation.

PPM focuses on macroeconomic and structural policies that have a bearing on external viability. Member countries are expected to engage in policy discussions with the IMF staff, including with regard to a quantified macroeconomic framework, much as is done in Article IV consultation discussions. The staff formally reports to the Board on the member's policies, including the consistency of these policies with the objective of medium-term viability and their implications for the member's capacity to repay the IMF. There are normally two PPM Board discussions a year: at the time of the Article IV consultation and a mid-term review between Article IV consultations. As with Article IV consultations, PPM discussions can be concluded on a lapse-of-time basis.

The Policy Support Instrument

In October 2005, the IMF introduced the Policy Support Instrument (PSI). The PSI is a non-financial instrument for low-income countries that either do not want or need financial assistance from the IMF, but still want IMF advice, monitoring, and endorsement of their economic policies. The PSI is available alongside existing IMF instruments and is intended to meet the needs of members without PRGF arrangements or who are about to graduate from PRGF arrangements. PSIs are designed to (i) promote a close policy dialogue between the IMF and the member country, (ii) provide more frequent IMF assessments of the member country's economic and financial policies, and (iii) deliver clear signals that could be taken into account by donors, creditors, and the general public on the strength of these policies. It is planned that a review of the experience with the PSI will be conducted in 2008.

The PSI is available to all PRGF-eligible IMF members with a poverty reduction strategy in place and that have a policy framework focused on consolidating macroeconomic stability and debt sustainability, while deepening structural reforms in key areas in which growth and poverty reduction are constrained. Such countries are considered to be "mature stabilizers." PSI-supported programs are expected to focus on medium-term growth-enhancing reforms and would benefit from a medium-term framework for donor assistance.

The Executive Board considers approval of a PSI based on a staff report and the authorities' Memorandum of Economic and Financial Policies (MEFP), provided eligibility conditions are met, and the members' policies meet conditionality requirements. A PRS document should have been issued within the previous 18 months. A PSI can be approved for 1-3 years, but can be extended for up to 4 years. PSI reviews will normally be scheduled semi-annually. Publication of PSI-related documents is voluntary but presumed, particularly given the signaling function of the PSI.

CHAPTER 4

SPECIAL DRAWING RIGHTS

The SDR as an International Reserve Asset

The SDR was created as a result of the First Amendment of the Articles of Agreement, which became effective in 1969. It was created as a supplement to existing reserve assets as the demand for reserves was expected to grow substantially over time in line with growing world trade. [80] Specifically, there were concerns that the growth in the supply of reserves (which comprised mainly gold and the U.S. dollar) would be insufficient since it depended on a diminishing supply of newly-mined gold entering into official reserves and on continued and unsustainable deficits in the balance of payments of the United States. It was also thought that U.S. gold stocks would decline relative to U.S. dollar liabilities, which would eventually make the par value of the U.S. dollar relative to gold unsustainable and precipitate an international monetary crisis. The intention was therefore to establish the SDR system to expand world reserves independently of the growth of official holdings of gold and foreign exchange. Further changes to the SDR system came about as a result of the Second Amendment of the Articles of Agreement, which had as an objective to make the SDR the principal reserve asset in the international monetary system. The SDR is also the unit of account that is used by the IMF.

However, the role of the SDR as a reserve asset has been very limited and SDRs currently comprise only a small fraction of members' international reserves. To date, only two series of SDR allocations have been made, totaling SDR 21.4 billion. International monetary conditions did not evolve as envisaged at the time of creation of the SDR. The Bretton Woods par value system broke down in the early 1970s and was replaced by a system of managed floating exchange rates. Furthermore, the growth of international capital markets meant that many countries could augment their international reserves through borrowing. Consequently, a shortage of international reserves did not materialize as expected. In addition, the SDR can only be held by official entities or approved official holders, and used in official transactions and operations. While these factors limited the role of the SDR as a reserve asset, the SDR helps lower the cost of holding reserves by reducing the need for borrowed reserves.

Main Characteristics of the SDR System

Separation of SDR and GRA Accounts

All operations and transactions involving SDRs are conducted through a Special Drawing Rights Department. All other operations and transactions on account of the IMF, including those involving the use of IMF resources, are conducted through the General Department. Assets held in the SDR Department are not available to finance the operations of the General Department, and vice-versa, except that the General Department pays the expenses of conducting the business of the SDR Department and is reimbursed in SDRs by the SDR Department. Separate financial statements are produced for the two departments.

Holders of SDRs

All IMF members have chosen to participate in the SDR Department. Participants receive allocations of SDRs, and only participants, the IMF, and prescribed official entities may hold or use SDRs. There are currently 15 prescribed official holders.[81] The IMF and prescribed holders acquire and use SDRs through transactions with participants and with each other. The IMF receives and disburses SDRs in transactions conducted through the GRA, and holds SDRs in the GRA. Sources of IMF holdings include quota subscriptions, repurchases, interest on loans to members and on GRA holdings, and re-imbursements for the cost of conducting the business of the SDR Department. Uses of SDRs by the IMF include purchases, remuneration on members' creditor

positions, repayments of and interest on IMF borrowing, and acquisition by members to pay charges and assessments.

Allocation and Cancellation of SDRs

Decisions on the allocation and cancellation of SDRs are usually made for successive basic periods of five years each. To date there has not been any cancellation. Decisions to allocate SDRs are based on a judgment that a long-term global need to augment international liquidity exists, and require approval by an 85 percent majority of the total voting power of the SDR Department. A participant that votes against the allocation or notifies the IMF that it does not wish to receive any allocation will not participate in the allocation. The IMF cannot allocate SDRs to itself or to other prescribed official holders.

Allocations or cancellations within a basic period take place at yearly intervals, although the IMF can decide to put in place other intervals. Members who become participants after a basic period starts receive allocations beginning with the next basic period in which allocations are made, unless the IMF decides that the new participant shall start to receive allocations beginning with the next allocation within the current basic period.

A proposal for a special one-time allocation of SDRs was approved by the IMF's Board of Governors in September 1997 through the proposed Fourth Amendment of the Articles of Agreement. [82] This amendment has not yet entered into effect. The allocation would double cumulative SDR allocations to SDR 42.8 billion. Its intent is to enable all members of the IMF to participate in the SDR system on an equitable basis and correct for the fact that countries that joined the IMF subsequent to 1981—more than one fifth of the current IMF membership—have never received an SDR allocation. The Fourth Amendment will become effective when three fifths of the IMF membership (111 members) with 85 percent of the total voting power accept it. As of end-October, 2006, 131 members with 77.3 percent of total voting power had accepted the proposed amendment. Approval by the United States is necessary to put the amendment into effect.

Use of SDRs

The SDR serves as the unit of account of the IMF and a number of other international organizations. In addition, some countries peg their currencies to the SDR or to a basket of currencies including the SDR.

To serve its purpose as a reserve asset, the SDR must be fully convertible into foreign currency. The Articles of Agreement provide for two mechanisms to ensure the SDRs convertibility: by designating IMF members with a strong external position to purchase SDRs on demand, and by arranging voluntary exchanges between participants.

Transactions by Designation

Under the designation mechanism, participants whose balance of payments and reserve positions are deemed sufficiently strong may be obliged, when designated by the IMF, to provide freely usable currencies in exchange for SDRs, up to specified amounts. [83] Members are expected to use transactions by designation only if they have a balance of payments or reserve need, not for the sole purpose of changing the composition of their reserves. The IMF prepares a quarterly designation plan to facilitate transactions by designation. The amount of designation is determined so as to promote over time a balanced distribution of holdings of SDRs among individual participants. This plan designates participants in such manner as to achieve a common lowest excess holdings ratio (that is, holdings of SDRs in excess of net cumulative allocations as a percent of their quota). Since September 1987 no transactions by designation have taken place; all exchanges of SDRs for currency have been executed through voluntary transactions by agreement.

Transactions by Agreement

A member may enter into an agreement with another member to use its SDRs to obtain an equivalent amount of currency from that member. Members may use this mechanism whether or not they have a balance of payments or reserve need. Transactions by agreement are facilitated by voluntary arrangements under which members commit to buy or sell SDRs if their holdings fall within a specified range, or to sell SDRs if their holdings rise above a specified minimum, or to buy SDRs if their holdings fall below a specified upper limit. Currently there are 12 members and one prescribed holder (the European Central Bank) with buy-sell arrangements, and one member with a sell-only arrangement.[84] There are currently no buy-only arrangements. Transactions by agreement between these members and others wishing to sell or buy SDRs are arranged by the IMF. The IMF initiates sales and purchases on behalf of members and matches sellers and buyers to ensure that all demands for currency and SDRs are satisfied. These arrangements have helped ensure the liquidity of the SDR system.

Operations

Besides transactions by designation or agreement, the IMF has also listed seven types of operations in which members and prescribed holders may use their SDRs, and the terms of and conditions under which these operations may take place.[85] These operations are: to settle financial obligations, to make loans, to make pledges, as security for the settlement of financial obligations, in swap operations, in forward operations, and to make donations.[86] Operations take place by agreement among participants and prescribed holders. All transactions and operations in SDRs are conducted at the fixed SDR exchange rate set by the IMF using a basket of four currencies, as explained below.

Valuation of the SDR

The value of the SDR is the sum of the values of specified amounts of the four currencies that satisfy the following criteria:[87] (i) they are issued by IMF members, or by monetary unions that include IMF members, that have the largest value of exports of goods and services; and (ii) they have been deemed by the IMF to be freely usable currencies.[88] These four currencies currently are the U.S. dollar, the Euro, the Japanese yen, and the pound sterling (Table 4.1). The SDR value is calculated daily in terms of the U.S. dollar, using the midpoint of the buying and selling spot exchange rates for each currency against the U.S. dollar at noon on the London exchange market as determined by the Bank of England.[89]

To fix the specified amounts of each currency referred to above, first the percentage weight of each currency in the SDR basket is determined. The percentage weight is determined by (i) the value of the balances of that currency held by monetary authorities other than those of the issuing member (the relative importance of the currency as a reserve asset) and (ii) the value of the exports of goods and services of the issuing member (the relative importance of the issuing member in world trade). The specified amount of each currency used in the calculation of the SDR value is then the amount of each currency, valued at the average exchange rate for the three-month period ending on the date on which the calculation is being made, required to give the percentage weight of that currency in the SDR basket. The list of currencies, and the amount of each, used to calculate the SDR value is reviewed every five years and are specified in Rule O-1 of the *By-Laws, Rules, and Regulations* of the IMF.

Yield and Cost of SDRs

The IMF pays interest on the SDR holdings by member countries to increase its attractiveness as a reserve asset. It also levies a charge on the cumulative SDR allocations to members. The rate of charge is equal to the rate of interest. Therefore, members whose holdings equal their cumulative allocation neither earn nor pay interest on SDRs on a net basis. Members who use their SDRs and thus hold less than their cumulative allocation—such as net debtors to the SDR Department—pay net charges, while members that hold more than their cumulative allocation—such as net creditors to the SDR Department—receive net interest on their excess holdings. For all members taken together, SDR interest and charges cancel out so that the net income of the SDR Department is always zero. To cover the operating cost of the SDR Department, the IMF levies an annual assessment, at the same rate for all participants in the SDR Department, on a participant's cumulative SDR allocations.

The SDR interest rate is the weighted average of short-term market interest rates in the four countries or monetary areas whose currencies are used to determine the SDR exchange rate (Table 4.2). The interest rates used are the market yield for three-month U.S. Treasury bills, the three-month Eurepo rate, the thirteen-week Japanese Government financing bills rate, and the market yield for three-month U.K. treasury bills. The weights are the SDR equivalents of the currency amounts that are in the SDR valuation basket. As in the SDR valuation, the weights are fixed for a five-year period. The SDR interest rate is calculated weekly.

Table 4.1 Calculation of the SDR Value [1/]

Currency	Initial weight [2/] (in percent)	Currency amount [3/]	Exchange rate [4/]	U.S. dollar equivalent
Euro	34	0.4100	1.26590	0.519019
Japanese yen	11	18.4000	117.59000	0.156476
Pound sterling	11	0.0903	1.88090	0.169845
U.S. dollar	44	0.6320	1.00000	0.632000
SDR				1.483151

Source: IMF, Finance Department.

1/ Data as of September 19, 2006.
2/ Decision No. 13595-(05/99), effective January 1, 2006.
3/ Under rule O-1.
4/ The exchange rate for the Japanese yen is expressed in terms of currency units per U.S. dollar; other rates are expressed as U.S. dollars per currency unit.

Table 4.2. Calculation of the SDR Interest Rate [1/]

Currency	Currency amount [2/] (A)	Exchange rate against the SDR [3/] (B)	Interest rate [4/] (in percent) (C)	Product (A) x (B) x (C)
Euro	0.4100	0.857314	3.3053	0.519019
Japanese yen	18.4000	0.00574471	0.3350	0.156476
Pound sterling	0.0903	1.27268	4.8700	0.169845
U.S. dollar	0.6320	0.676382	4.9500	0.632000
SDR Interest Rate [5/]				**3.87**

Source: IMF, Finance Department.

1/ For the week of September 18 to 24, 2006. Data as of Friday, September 15, 2006.
2/ Under rule O-1.
3/ SDR per currency rates are based on the representative exchange rate for each currency.
4/ Interest rate on the financial instrument of each component currency in the SDR basket, expressed as an equivalent annual bond yield: three-month Eurepo rate; Japanese Government thirteen-week financing bills; three-month UK Treasury bills; and three-month US Treasury bills.
5/ IMF Rule T-1(b) specifies that the SDR interest rate for each weekly period commencing each Monday shall be equal to the combined market interest rate as determined by the Fund. Under IMF Rule T-1(c), the combined market interest rate is the sum, as of the Friday preceding each weekly period, rounded to the two nearest decimal places, of the products that result from multiplying each yield or rate listed above by the value in terms of SDRs of the amount of the corresponding currency specified in Rule O-1. If a yield or rate is not available for a particular Friday, the calculation shall be made on the basis of the latest available yield or rate.

CHAPTER 5

COMBATING POVERTY IN LOW-INCOME COUNTRIES

A central objective of the IMF in low-income countries is to support sustained poverty reduction through policies that promote economic growth, employment generation, and targeted assistance to the poor. This follows from the IMF's mandate to contribute "to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy." In doing so, the IMF works in four main broad areas—policy advice and program design, capacity building, financial support and debt relief, and coordinated international efforts. The IMF focuses on its core areas of responsibility and expertise, where it has a clear comparative advantage, namely: the pursuit of stable macroeconomic conditions and macro-relevant structural reforms, with supporting financial and technical assistance. In its work in low-income countries, the IMF works in close collaboration with other development partners, particularly the World Bank, which is the lead institution for poverty reduction.[90]

The IMF, in conjunction with other development partners, has endorsed a two-pillar strategy for tackling poverty in low-income countries.* First, low-income countries must be proactive in implementing sound policies, strengthening institutions, and improving governance. Second, for those countries that implement sound policies and reforms, the international community must provide strong support through greater trade opportunities and increased and better-delivered aid flows.

The IMF has been working on both elements of the two-pillar strategy. The thrust of its efforts has been in assisting low-income countries in developing and implementing country-owned poverty reduction strategies and policies; mobilizing the necessary financial and technical support from the international community, including debt relief; and promoting an international economic environment that is conducive to poverty reduction and the attainment of the Millennium Development Goals (MDGs). In this last regard, examples include the support of efforts to improve market access for developing countries' exports, reduce trade-distorting subsidies in advanced economies, or eliminate barriers to trade among developing countries.

The IMF and the World Bank have pioneered the development of two initiatives to tackle poverty in low-income countries. The first initiative is the Poverty Reduction Strategy (PRS) framework for the provision of international development assistance to low-income countries, including concessional lending from the IMF and the World Bank. The PRS framework has become the basis of IMF and World Bank concessional lending operations. The second initiative is the Heavily Indebted Poor Countries (HIPC) Initiative for the provision of debt relief by the international community to low-income countries. These two initiatives have been widely adopted by low-income countries and by the international donor community. In addition, the IMF also participates in the Multilateral Debt Relief Initiative (MDRI) in response to a proposal by the Group of Eight (G-8) industrial countries to cancel the obligations of low-income countries to specific multilateral institutions.

The IMF's principal vehicle for concessional financial support to low-income countries is the Poverty Reduction and Growth Facility (PRGF). An IMF instrument available to low-income countries that may not need or want access to IMF financial resources is provided through the Policy Support Instrument (PSI). Additional instruments available to low-income countries are the Emergency Post-Conflict-Assistance (EPCA) and the Exogenous Shocks Facility (ESF). All these facilities or special instruments are described in more detail in Chapter 3.

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* The international community endorsed this strategy at the United Nations' Conference on Financing for Development held in Monterrey, Mexico, March 2002, and at the World Summit on Sustainable Development in Johannesburg, South Africa, in August 2002.

The Medium-Term Strategy (MTS), discussed in Chapter 1, will have an impact on the IMF's role in low-income countries, namely by envisaging a refocusing of the IMF's work on macro-critical areas, improved collaboration with other institutions, greater flexibility in conditionality, increased involvement in managing the implications of debt relief, and assessing the relationship between aid inflows, resources needs related to the Millennium Development Goals and macroeconomic stability.

Poverty Reduction Strategy Framework

A central goal of the IMF's engagement with low-income countries is to support their efforts for achieving their Millennium Development Goals. In that context, the Poverty Reduction Strategy (PRS) has been broadly accepted as the framework for coordinating the efforts of low-income countries and development partners to achieve the MDGs. The IMF supports, in line with the MTS, sustained poverty reduction and reaching the MDGs through its work promoting macroeconomic stability and sustained growth. Moreover, the IMF plays a critical role in helping low-income countries address the macroeconomic challenges of increased aid inflows.

Poverty Reduction Strategy documents are prepared by the member countries through a participatory process involving domestic stakeholders and external development partners, including the IMF. The PRSP framework is intended to focus policies and resources of both low-income countries and the international donor community on poverty reduction. The strategy to combat poverty is embodied within a poverty reduction strategy document, which can be Poverty Reduction Strategy Paper (PRSP), an Interim PRSP (I-PRSP), a PRSP preparation status report, or a PRSP or Annual Progress Report. The PRSP describes the country's macroeconomic, structural and social policies and programs over a three year or longer horizon to promote broad-based growth and reduce poverty, as well as associated external financing needs and major sources of financing. It is updated every three years with Annual Progress Reports. I-PRSPs summarize the current knowledge and analysis of a country's poverty situation, describe the existing poverty reduction strategy, and lay out the process for producing a fully developed PRSP in a participatory fashion. The country documents are made available on the IMF website by agreement with the member country.

These documents form the basis on which the IMF, the World Bank, and other donors base their concessional lending decisions and debt relief.[91] However, IMF and the World Bank Boards do not need to endorse the poverty reduction strategy documents as a satisfactory basis for concessional lending.[92] IMF support under the PRSP framework is provided under the Poverty Reduction and Growth Facility (PRGF).

Preparation of a Poverty Reduction Strategy Document

Requests for a PRGF arrangement with the IMF require that a PRS document be issued within the previous 18 months. Countries also need to have a PRSP in order to qualify for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, as explained below.

Where a country is unable to prepare a full PRSP in a timely manner to support its request for financial assistance or debt relief under the HIPC Initiative, it may submit an I-PRSP under a transitional arrangement. In this case, the full PRSP should be completed prior to the start of the second year of the program. Where completion of the full PRSP is expected to be delayed beyond the start of the second year, a progress report on the implementation of the I-PRSP and the status of preparation of the full PRSP can provide the basis for continued access to concessional assistance.

Countries should preferably update their PRSPs every three years, to ensure that the PRSP and PRGF cycles coincide and to ensure that PRGF arrangements are based on updated PRSPs. In between updates, countries need to prepare an annual progress report on implementation of the PRS.

A key element of the PRSP framework is the country's ownership. The PRSP or I-PRSP should be prepared using a broad participatory process, involving consultations among a wide spectrum of the civil society and the international donor community. This helps to ensure that there is a national consensus regarding the appropriateness of the poverty reduction strategy, and a political commitment to its successful implementation.

Content of a PRSP or I-PRSP

PRSPs reflect country-specific circumstances, and therefore their content will vary from country to

country and over time within a given country. However, the IMF and the World Bank have suggested the following as possible core elements of a PRSP:

- A comprehensive diagnostic of the nature, causes, and incidence of poverty;
- A clear and detailed statement of the medium- and long-term outcome-oriented targets for the country's poverty reduction strategy, and the macroeconomic, structural, and social policies that together comprise a comprehensive strategy for achieving these outcomes;
- A description of the framework and mechanisms for monitoring implementation, including the extent and planned development of participatory processes designed to strengthen accountability, the indicators to be monitored, and the planned frequency of reporting and monitoring; and
- An assessment of the external financial and technical assistance that would be required to achieve the objectives of the poverty reduction strategy.

The I-PRSP includes the following:

- An interim report by the government presenting its commitment to poverty reduction, the main elements of its poverty reduction strategy consistent with the extent of diagnosis that has been conducted, and a timeline and a consultative process by which the PRSP will emerge.
- A jointly agreed but tentative three-year macroeconomic framework and three-year policy matrix, focusing on poverty reduction, which will be revised when the interim document is replaced by a full PRSP.

Joint Staff Advisory Note on the PRS Document

A request for a PRGF arrangement is granted only if the Executive Boards of the IMF and the World Bank are satisfied that the PRS document constitutes a sound basis for concessional lending to the country. The Executive Boards' judgment on the PRS document is based in large part on the Joint Staff Advisory Note (JSAN), which is an assessment report prepared jointly by the staffs of the IMF and the World Bank.[93] The JSAN is circulated to the Executive Boards at the same time as the PRS document and provides detailed feedback to the country authorities on the strengths and weaknesses of their poverty reduction strategies. The Medium-Term Strategy is contemplating the elimination of JSANs.

Alignment of the PRGF with the PRSP

The PRSP is the basis for IMF lending to the country under a PRGF arrangement. This is intended to ensure that PRGF-supported economic policies are fully consistent with the poverty reduction strategy.[94] This is accomplished through the requirement that the PRSP contain a realistic macroeconomic policy framework that is fully aligned with the poverty reduction goals, targets, and policies. PRGF-supported economic programs are drawn directly from the PRSP by implementing the macroeconomic component of the PRSP, and thereby directly contributing to the attainment of the country's poverty reduction goals. Where PRSPs lack specificity—i.e., do not contain sufficiently specific targets and policy measures—PRGF-supported programs, like other donor-supported programs, may include measures that are not specified or foreseen in the PRSP, but that are consistent with, and critical for, reaching the country's growth and poverty reduction objectives.

Consistent with the PRSP approach, IMF-supported economic programs in low-income countries have been redesigned to make them more poverty-oriented, country-driven, and collaborative. They now place more emphasis on country ownership of economic policies; flexibility of fiscal policy to accommodate economic growth and poverty objectives; reorientation of public expenditure toward the social sectors; and improvement of public resource management, public accountability, and governance (Box 5.1). They are also more focused on the IMF's core areas of expertise, in line with the IMF's general move to streamline structural conditionality. This means greater reliance on, and coordination with, programs supported by the World Bank and other donors. The design and conditionality of PRGF-supported programs also increasingly integrates poverty and social impact analyses (PSIAs), which are led by the World Bank.

Given capacity and data constraints, many countries are as yet unable to engage in broader and deeper analysis of the macroeconomic frameworks and of policy choices in PRGF-supported programs. The IMF provides technical assistance to help countries build capacity in macroeconomic and financial programming, and in economic statistics.

Aid Coordination and Effectiveness

The PRS framework facilitates the coordination across different development agencies, reduces transactions costs, and increases the effectiveness of external aid in reducing poverty. To this end, the IMF systematically shares information with other donors—on the timing and results of negotiation and review missions, on the conditions and proposed timing of donor disbursements, and on the technical assistance provided by the IMF—and takes into account the impact of policies supported by other donors in PRGF-supported programs. Together with the World Bank, the IMF is also engaged in efforts to increase alignment of donor support with the PRS and the national budget cycle, so that individual donors can derive the content and conditionality of their programs directly from the PRS whenever possible. This helps address problems of focus and overly burdensome conditionality in uncoordinated donor programs. Finally, the IMF encourages donors to make medium-term commitments of aid, where possible, to increase the predictability of external financing and strengthen the national budgetary process.

HIPC Initiative

The HIPC Initiative, established in 1996, provides exceptional assistance to eligible member countries to reduce their external public debt burdens to sustainable levels, thereby enabling them to service their external debts without the need for further debt relief and without compromising poverty reduction efforts or economic growth.[95] It is a comprehensive approach to debt relief which involves other multilateral creditors as well as official bilateral and commercial creditors. The IMF's launching of the HIPC Initiative is consistent with its mandate to provide balance of payments assistance as well as promote economic growth in member countries. In September 1999, the IMF and the World Bank agreed to strengthen the HIPC Initiative to provide broader, deeper, and faster debt relief by lowering the threshold and the performance period requirement, thereby increasing also the number of eligible countries. At the same time, the links between debt relief and poverty-reduction efforts were strengthened through the PSRP framework.*

The HIPC Initiative was defined as a temporary initiative, but has been extended a number of times. A sunset clause, which had already been extended four times since its introduction in 1996, is taking effect at end-2006. However, allowing the sunset clause to take effect without any modification would have left a number of countries with debt burdens in excess of the Initiative's threshold and without a comprehensive framework. Instead, the Board decided in October 2006 to grandfather all countries that are assessed to have met the income and indebtedness criteria based on end-2004 data, including countries that might meet these criteria at some point in the future.[96]

* The post-September 1999 HIPC Initiative is sometimes referred to as the "enhanced HIPC Initiative." Here, the original term "HIPC Initiative" is retained for simplicity, but it and the term "Initiative" are understood to refer to the post-September 1999 framework.

Box 5.1. Summary of Key Features of PRGF-Supported Programs[1]

Programs Are Based on Broad Participation and Ownership

- Main elements of PRGF are drawn from the country's PRSP.
- Country authorities produce PRSP in a transparent process with broad participation.

Programs Are Embedded in the Overall Strategy for Growth and Poverty Reduction

- PRGF-supported program is derived from, and reflects, the overall growth and poverty reduction strategy.
- Macroeconomic and structural policies are fully integrated with growth and poverty objectives.
- Emphasis is put on policies to promote private sector development.
- PRGF support of the strategy is focused on areas within the IMF's area of expertise and responsibility.

Budgets Are More Poverty-Oriented

- Government spending is oriented toward activities that benefit the poor, directly or indirectly.
- Priority is given to improving the efficiency and targeting of growth and poverty-related spending.
- Emphasis is put on improving data and monitoring in order to track expenditures.
- Tax reforms seek to improve tax efficiency and equity while generating resources for poverty reduction

Fiscal Targets Are More Flexible

- More normative macro-projections may be presented to signal financing needs.
- Where warranted, commitments of higher aid flows are sought from donors and built into the program.
- PRSP may identify contingent expenditures that could be added if more aid were forthcoming.
- Fiscal targets may be modified in the event of key shocks.

Structural Conditionality Is More Selective

- Conditionality is focused on key measures that are central to the success of the strategy.
- Conditionality is limited to measures that are in the IMF's domain; exceptions must be justified.

Emphasis Is Placed on Measures to Improve Public Resource Management and Accountability

- Fiscal policies and objectives should be open to public debate.
- Transparent monitoring systems should be used to improve delivery of public services.
- For HIPCs, programs include specific mechanisms for monitoring use of debt relief.
- Selective conditionality on fiscal governance measures may be used.

Social Impact Analysis of Major Policies and Reforms Are Integrated into Program Design

- Distributional effects of substantial macro-adjustments or structural reforms are taken into consideration.
- Countervailing measures are incorporated to offset temporary adverse effects on the poor.
- World Bank leads impact analysis; PRGF documents describe work done and how analysis influenced policies.

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[1] See Key Features of PRGF-Supported Programs, August 16, 2000, available on the Internet at: http://www.imf.org/external/np/prgf/2000/eng/key.htm.

Operational Aspects of the HIPC Initiative

An eligible member that has satisfied the necessary conditions for assistance under the Initiative receives a commitment of debt relief at the "decision point", which is the date at which the IMF and the World Bank decide that the member country qualifies for assistance under the Initiative. The committed amount of debt relief is the amount calculated by the IMF and the World Bank, on the basis of a loan-by-loan debt sustainability analysis, as necessary to reduce the member's external debt to a level deemed sustainable. Countries that reach the decision point may begin to receive limited interim debt relief. Once the member country meets the conditions for assistance established for it at the decision point, the full amount of debt relief committed at the decision point, less any interim assistance disbursed, is delivered at the "completion point", which is the date at which the IMF and the World Bank decide that necessary conditions have been met and a decision is taken to disburse the assistance committed. A topping-up decision can also be taken, as is discussed later, but, briefly, involves the disbursement of assistance over and above that which was committed at the decision point. The debt relief provided to a member at the completion point is irrevocable and is provided with no further policy conditionality.

Eligibility Requirements for the HIPC Initiative

IMF assistance under the HIPC Initiative is limited to countries that:

- are PRGF-eligible (described in detail in Chapter 3);
- are pursuing a program of adjustment and reform supported by the IMF through a PRGF or Extended Arrangement, a Stand-By Arrangement, a decision on rights of accumulation, or Emergency Post Conflict Assistance; and
- have received, or are eligible to receive, assistance to the full extent available under traditional debt relief mechanisms. Even after the full application of these traditional debt relief mechanisms, the member's external debt situation, based on end-2004 data, is unsustainable, as defined under the HIPC Initiative.

To qualify for assistance (i.e., to reach the decision point) under the Initiative, an eligible member must have:

- an unsustainable external debt, even after the application of traditional debt relief mechanisms, based on the latest available external debt data;
- a satisfactory poverty reduction strategy set out in an PRS document issued to the Executive Board within the previous 18 months;
- not agreed on an exit operation with Paris club creditors on Naples terms after September 1999;
- established a track record of strong policy performance under IMF-supported programs, covering macroeconomic policies and structural and social policy reforms; and
- a commitment from all other creditors (holding debt claims above a certain minimum amount) to participate in the Initiative.

Definition of Debt Sustainability and Debt Relief

A sustainable debt is defined under the HIPC Initiative as an external public debt that is equal in net present value terms to no more than 150 percent of exports of goods and non-factor services calculated on the basis of data available at the decision point. Thus, the total amount of HIPC Initiative assistance to the country committed at the decision point by all creditors is calculated so as to bring the net present value of the debt down to 150 percent of exports. In the special case of a country that has, at the decision point, (i) an exports-to-GDP ratio of at least 30 percent and (ii) a fiscal revenue-to-GDP ratio of at least 15 percent, a debt sustainability target of below 150 percent for the debt-to-exports ratio at the decision point may be set, with the specific target set to reduce the external debt in net present value terms to 250 percent of fiscal revenue at the decision point.

Requirement of a Track Record

The requirement of a track record of strong policy performance is normally satisfied by an initial three-year performance period leading up to the decision point, followed by a second performance period leading up to the completion point. In the case of the first three-year period leading to the decision point, the member's economic program could be supported by arrangements under the PRGF, ESF or EFF. In some cases, these programs could also be supported by a Stand-By Arrangement, decisions on rights accumulation, or the policy on emergency assistance for post-conflict countries. Members could receive credit toward the decision point for programs that were underway prior to the adoption of the HIPC Initiative. In the case of the second performance period leading up to the completion point, the member's program must be supported by PRGF, ESF or Extended Arrangements.

The second performance period is not fixed; it ends when the member has satisfactorily implemented a set of pre-defined key policy reforms, has a stable macroeconomic position, and has kept on track with its IMF-supported program. In addition, the member would need to have prepared a PRSP and implemented the poverty strategy satisfactorily for at least a year by the completion point. The completion point is thus described as a "floating" completion point: it triggers whenever the above conditions are satisfied. The use of floating completion points provides an incentive for countries to implement reforms quickly, thereby permitting strong performers to reach the completion point earlier. It also allows HIPC countries greater ownership over the reform timetable.

Amount of IMF HIPC Assistance

The IMF's share of total HIPC Initiative assistance is based on:

- the IMF's share in the present value of the multilateral debt of the member at the decision point; and
- the assistance to be provided by multilateral creditors in terms of a reduction in the net present value of the debt owed to them by the member sufficient to achieve the debt sustainability targets. This is calculated taking into account the exceptional assistance to be provided by Paris Club creditors and at least comparable action by other official bilateral and commercial creditors under the Initiative.

During the interim period between the decision point and the completion point, the IMF may advance to the member, as interim assistance, a portion of its committed assistance not to exceed (i) 20 percent of the total assistance committed for each 12-month period following the decision point and (ii) a maximum of 60 percent of the total assistance committed. These amounts may be raised to 25 percent and 75 percent respectively, in exceptional circumstances. However, the amount of interim assistance in any 12-month period cannot exceed the amount of debt service falling due to the IMF during that period.

At the completion point, the IMF disburses the amount committed at the decision point, less any interim disbursements made after the decision point. The HIPC Initiative allows for the provision of additional debt relief under exceptional circumstances to countries at the completion point. However, a reassessment of the amount of debt relief committed at the decision point is not automatic. Additional debt relief—referred to as "topping-up assistance"—under the Initiative could be considered, to achieve a sustainable debt ratio, only if the deterioration in debt sustainability since the decision point is attributable primarily to a fundamental change in the member's circumstances owing to exogenous factors.[97] The IMF approves all disbursements under the HIPC Initiative in the context of satisfactory assurances regarding the assistance to be provided under the Initiative by the member's other creditors.

Terms of IMF HIPC Assistance

IMF HIPC assistance may be given as grants or loans, as determined on a case-by-case basis, taking into account the objective of bringing the debt-to-exports ratio down to the debt sustainability target agreed at the decision point. Such loans and grants are used at the completion point as an early repayment of the member's qualifying debt to the IMF. Debt-relief loans are provided interest-free, and have a grace period of 5½ - 10½ years and a maturity of 10-20 years. The actual maturity is determined on a case-by-case basis. Repayment of these loans cannot be rescheduled. To date, all HIPC Initiative debt relief has been given in the form of grants, in order to avoid a further accumulation of debt by HIPC countries.

Use of Resources Freed by Debt Relief

Debt relief under the HIPC Initiative is an integral part of international efforts to eradicate poverty in

low-income countries. One of the main benefits of the Initiative is that, by reducing annual debt-service payments, it will make possible the accommodation of higher levels of expenditure to accelerate poverty reduction, including social spending. Therefore, beneficiaries of HIPC Initiative assistance are expected to use the resources released from debt service payments to finance spending that directly or indirectly reduces poverty and improves living conditions. In particular, spending on the social sectors is expected to be higher than what it otherwise would have been. However, the IMF and World Bank emphasize that, in addition to increasing spending, countries should take steps to improve the efficiency of public spending, in terms of both the inter-sectoral composition of spending and the allocation of spending within sectors.

To ensure that additional spending on poverty reduction takes place and is appropriately targeted, the IMF provides technical assistance to beneficiary countries to strengthen their public expenditure management systems and expenditure tracking mechanisms, so that countries can effectively track public spending. The IMF also emphasizes transparency and accountability in the management of the freed resources. This allows countries to demonstrate to the donor community that the resources are being used effectively for poverty reduction, and helps sustain or increase aid flows to low-income countries.

Multilateral Debt Relief Initiative

In November 2005, the IMF decided to adopt a new Initiative to provide debt relief to low-income countries (including two member countries that were not HIPCs) in addition to the debt relief provided under the HIPC Initiative. This initiative, called the Multilateral Debt Relief Initiative (MDRI), provides grant assistance to eligible low-income member countries to repay all of their qualifying outstanding debt to the IMF.[98] The vehicles to facilitate these grants are the MDRI-I and MDRI-II Trust Accounts, which came into effect in January 2006, following consent of all contributors to the PRGF Subsidy Account to the transfer of their contributions to the MDRI-II Trust Account.

In order to receive MDRI Trust assistance, low-income member countries must meet eligibility criteria, and then pass a separate threshold for qualification.

The countries that may benefit from MDRI debt relief from the IMF include:

- all HIPC countries once they reach the completion point under the HIPC Initiative; and
- all non-HIPC counties at or below the US$380 per capita income threshold.

At the time when the MDRI was established, the Executive Board requested that the following qualification criteria be established:

- Post-HIPC completion point countries would need to meet a number of criteria to qualify for MDRI relief. In addition to being current on their obligations to the IMF, they needed to demonstrate satisfactory performance in three key areas:

(a) macroeconomic performance;

(b) implementation of a poverty reduction strategy detailed in a Poverty Reduction Strategy Paper (PRSP) or a similar framework; and

(c) public expenditure management systems.

- Countries that have not yet reached the completion point under the HIPC Initiative will qualify for MDRI relief upon reaching the completion point.

Upon determination of qualification, the applicable MDRI-I or MDRI-II Trusts will repay to the IMF an amount equivalent to the member's outstanding eligible debt to the IMF, subject to the availability of resources. "Eligible outstanding debt" is that part of the member's debt to the IMF (including to the IMF as trustee) outstanding as of December 31, 2004 that has not been (or is not scheduled to be) repaid by the member, or with assistance committed or disbursed under the HIPC Initiative.

CHAPTER 6

CAPACITY BUILDING: TECHNICAL ASSISTANCE AND TRAINING

Capacity building is provided by the IMF to member countries mostly in the form of advice and training provided by IMF staff, headquarters-based technical assistance experts, and experts in the field employed by the IMF. Requests for technical assistance arise from the authorities' initiatives to identify and correct weaknesses in policy formulation or implementation. They may also result from discussions in the context of IMF surveillance or lending operations or as follow-up on FSAP and ROSC exercises.

Role of Capacity Building

Technical Assistance

Technical assistance is a crucial aspect of the IMF's operations and helps members in strengthening their policy formulation and implementation, and the legal, institutional, and market frameworks within which they operate. It also constitutes an important complement to IMF surveillance and lending operations in member countries. In surveillance and lending operations, IMF staff work with country authorities to identify the policies and reforms required to correct particular macroeconomic and structural problems. Technical assistance, on the other hand, focuses on the implementation of these policies and reforms.[99] Thus technical assistance enhances the effectiveness of the IMF's surveillance and lending operations in member countries, and there is emphasis on better integrating it with these operations. In addition, by increasing the likelihood that economic programs will be fully and successfully implemented, technical assistance strengthens members' capacity to repay the IMF and thus helps preserve the revolving character of the IMF's loan resources.

Technical assistance is provided by the IMF to member countries mostly in the form of human resources. The human resources comprise IMF staff, headquarters-based consultants, and experts hired by the IMF, who provide their services to member countries in response to specific requests for assistance from the authorities. These requests for assistance may originate in the context of surveillance discussions or lending operations, ROSC exercises, or the work of regional technical assistance centers (RTACs). They may also stem from the authorities' own initiative to identify and correct weaknesses in policy implementation.

The IMF provides technical assistance only upon request by members. However, demand for technical assistance from the IMF is strong, as it confers substantial benefits at a modest cost or no cost to most member countries and is provided without conditionality. Under current procedures, most technical assistance is provided free of charge and charges for technical assistance account for less than one percent of the cost of IMF technical assistance.[100]

From the member country's perspective, technical assistance satisfies an immediate or short-run need for technical skills to support the policy dialogue and formulation and to implement specific macroeconomic policies and structural reforms. It also helps to develop long-term national capacity to design and implement economic policies and reforms. Technical assistance also constitutes a channel for learning from the experiences of other countries, and ensuring that legal and institutional frameworks meet international standards and strengthen national ownership of economic programs and policies.

In these ways technical assistance helps to address resource constraints, improves national economic management and governance, and contributes to macroeconomic stability and economic growth in member countries. It is a particularly valuable resource for developing, transition, and post-conflict countries, where institutional weaknesses are important constraints on policy design and implementation. In post-conflict countries, technical assistance is helpful in the reconstruction of economic institutions and may pave the way for IMF financial support.

Training

The IMF, principally through the IMF Institute, delivers training that enhances the ability of member country officials to analyze economic developments and formulate and implement effective economic policies. It is an important aspect of capacity building that supports and complements the IMF's surveillance, lending, and technical assistance activities, emphasizing practical applications of theory to real-world policy issues that academic institutions often treat in the abstract. IMF training is heavily demanded by the membership, as—like technical assistance—it offers countries sizeable benefits at little cost to them.

Types of Technical Assistance and Training

The main IMF departments providing capacity building services in the IMF are the Fiscal Affairs Department (FAD), the IMF Institute (INS), the Monetary and Capital Markets Department (MCM), the Statistics Department (STA), and the Legal Department (LEG).[101]

- The **Fiscal Affairs Department** provides advice on tax policy advice in the areas of income tax, value-added tax, and taxation of natural resources, and support for the design and implementation of strengthened tax and customs administration, social security contribution collection, and major tax policy changes. Advice in public financial management includes legal and regulatory frameworks, budget management, cash management, accounting, reporting, and debt management. Advice also covers expenditure policy, macro-fiscal management, public-private partnerships and fiscal risks, and fiscal decentralization.

- The **IMF Institute** delivers, in collaboration with other IMF departments, courses and seminars on macroeconomic management in general and on policies related to the financial sector, the budget, and the balance of payments, including how to strengthen the statistical, legal, and administrative framework in these areas. INS offerings encompass long-standing courses such as financial programming and policies and newer, more specialized courses is such areas as macroeconomic diagnostics, inflation targeting, financial markets, and debt, while other departments deliver training within the INS program to complement their technical assistance activities.

- The **Monetary and Capital Markets Department** provides advice on central banking and currency arrangements, monetary and exchange policy operations, public debt management, reserves management, financial market development, exchange systems and currency convertibility, payments systems, bank supervision and regulation and financial market integrity, bank restructuring and banking safety nets, and the implementation of international standards. In the area of capital markets, MCM provides advice on market access, asset and liability management, financial instruments, investor relations programs, corporate sector's needs and vulnerabilities, investment climate issues, and local capital markets.

- The **Statistics Department** provides advice on balance of payments, international investment positions, and external debt statistics, reserve assets and foreign currency liquidity, and external debt statistics, government finance statistics, monetary and financial statistics, financial soundness indicators, national accounts and price statistics, and data dissemination standards.

- The **Legal Department** provides technical assistance primarily relating to the review or drafting of laws or regulations in the areas of tax and fiscal matters; central banking, commercial banking (including bank insolvency and deposit protection schemes); payments systems; creditor rights (corporate insolvency and restructuring, secured transactions, and enforcement of financial claims); foreign exchange; and on combating money laundering and the financing of terrorism.

Capacity Building Priorities

As the demand for technical assistance and training from the IMF outstrips the supply, the IMF prioritizes assistance to allocate its available resources.[102] The IMF provides technical assistance and training mainly in the areas that are within its core mandate and only provides technical assistance and training in

the areas of secondary priority where it would have a significant macroeconomic impact, and in other areas only in exceptional circumstances. Following the assessment by the Independent Evaluation Office (IEO) of the IMF's technical assistance, and reinforced by the Medium-Term Strategy, the focus has shifted away from the previous use of prioritization filters to a much closer integration between technical assistance and the IMF's surveillance and lending operations, and a greater role of area departments. [103] Other important factors are the macroeconomic criticality of the problem, the track-record of implementation by the authorities, and the extent to which other technical assistance providers are able to provide follow-up assistance to help implement reform programs and action plans developed by the IMF's technical assistance.

Sources and Uses of Capacity Building Resources

About three-quarters of technical assistance provided during 2002-2006 is financed out of the IMF's own resources (Table 6.1). The remainder is financed through contributions from bilateral or multilateral donors through accounts established at the IMF for the administration of such resources. To facilitate the opening of such accounts, the IMF has set up an umbrella Framework Administered Account for Technical Assistance Activities (FAA). Japan provides about half of the externally provided resources.

Modes of Delivery of Capacity Building

There has been a movement away from ad-hoc stand-alone short-term staff visits and from long-term resident experts towards greater use of short-term experts, and in particular peripatetic support (series of expert visits). There is also growing emphasis on regional approaches to technical assistance delivery through the establishment of regional technical assistance centers. There has likewise been a shift toward delivering training through a network of regional training centers.

Short-Term Visits by Staff and Headquarters-Based Consultants

Short-term visits usually last two to three weeks, at the end of which the staff or consultants write a report setting out their analysis, conclusions, and recommendations. There may be follow-up visits to assist with and monitor the implementation of the recommendations. Most short-term technical assistance visits cover a specific subject within a given economic sector. However, the Statistics Department also undertakes multi-sector missions.

Long-Term Advisors

Where the member country would need on-site advice and assistance over an extended period of time to implement reforms, the IMF posts an advisor in the country. Advisors are usually posted in the central bank, Ministry of Finance, or statistical office, for periods ranging from six months to three years. They may also be regional advisors, covering two or more countries in a region or working with regional institutions. They collaborate closely with headquarters-based staff and submit periodic reports on their activities.

Regional Technical Assistance Centers

Increasingly, technical assistance is delivered through regional technical assistance centers (RTACs). RTACs have resident staff, and work closely with the regional governments in identifying technical assistance needs and in designing and implementing technical assistance programs. They are a cost-effective way of providing technical assistance to a group of countries, maximizing the use of local expertise, and tailoring assistance and advice to local conditions. RTACs provide about 17 percent of all of the IMF's technical assistance. [104]

Table 6.1. IMF Technical Assistance Resources and Delivery

(in effective person-years) [1/]

	FY2002	FY2003	FY2004	FY2005	FY2006
IMF technical assistance budget	**268.8**	**262.2**	**262.1**	**283.4**	**341.1**
Staff	172.2	174.1	186.1	195.6	258.7
Headquarters-based consultants	23.2	20.1	20.6	27.4	23.7
Field experts	73.4	68.0	55.4	60.4	58.7
External technical assistance resources	**77.8**	**93.5**	**105.3**	**97.2**	**88.1**
United Nations Development Program	9.6	9.6	8.1	5.8	5.0
Japan	56.2	61.9	61.6	52.5	45.6
Other cofinanciers	12.0	22.0	35.6	38.9	37.6
Total technical assistance resources	**346.6**	**355.7**	**367.4**	**380.6**	**429.2**
Technical assistance regional delivery 2/	**280.0**	**286.5**	**291.1**	**301.4**	**290.9**
Africa	71.9	72.1	83.8	86.9	82.7
Asia and Pacific	63.1	67.5	69.0	68.2	59.8
Europe I	30.3	27.7	--	--	--
Europe II	32.6	25.1	--	--	--
Europe	--	--	35.5	34.5	37.3
Middle East	22.4	26.5	--	--	--
Middle East & Central Asia	--	--	40.1	45.1	56.3
Western Hemisphere	28.0	32.6	26.6	32.7	40.5
Regional and Interregional	31.7	35.1	36.0	33.9	14.4
Technical assistance management and administration 3/	**66.6**	**69.2**	**76.4**	**79.2**	**138.3**
Total technical assistance delivery	**346.6**	**355.7**	**367.4**	**380.6**	**429.2**
Total technical assistance delivery by department	**346.6**	**355.7**	**367.4**	**380.6**	**429.2**
Monetary and Financial Systems Department	115.5	120.0	122.0	127.0	125.7
Fiscal Affairs Department	97.5	94.3	95.6	99.5	100.2
IMF Institute	56.0	55.4	53.6	57.0	80.7
Statistics Department	49.2	55.7	59.0	53.1	54.3
Legal Department	15.5	19.6	23.9	23.5	20.0
Other 4/	12.9	10.7	13.3	20.4	48.3

Source: IMF, Office of Technical Assistance Management.

1/ An effective person-year of technical assistance is 260 days.

2/ In FY2004 the former European II Department was dissolved, and its countries were absorbed by the new European Department and the Middle East and Central Asia Department.

3/ Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.

4/ Includes the Policy Development and Review Department, the Technology and General Services Department, and the Office of Technical Assistance Management.

There are five regional technical assistance centers: the Pacific Financial Technical Assistance Center (PFTAC) in Suva, Fiji, established in 1993; the Caribbean Regional Technical Assistance Center (CARTAC) in Bridgetown, Barbados, established in 2001; the East-African Regional Technical Assistance Center (East-AFRITAC) in Dar es Salaam, Tanzania established in 2002; the West-African Regional Technical Assistance Center (West-AFRITAC) in Bamako, Mali, established in 2003; and the Middle-Eastern Regional Technical Assistance Center (METAC), established in Beirut, Lebanon in 2004. A Central-AFRITAC will be opened in Libreville, Gabon in early-2007. The AFRITACs were established under the umbrella of the IMF's Africa Capacity-Building Initiative, which was launched in 2002 in response to a request by African Heads of State for enhanced IMF support (Table 6.2).[105]

Training

The IMF Institute's strategy emphasizes delivery of training in participants' own regions. This allows it to tailor the training more closely to regional needs and foster collaboration and mutual learning within regions. Regional delivery of training is also generally more cost effective, as participant travel costs are lower than for travel to and from IMF headquarters in Washington. Most of this overseas training is conducted though the IMF's regional training programs (Table 6.3). This strategy has attracted substantial donor support which has enabled the IMF Institute to expand training considerably over the past decade. Courses are also conducted in collaboration with regional training institutions, in large member countries, in countries with special training needs, and through distance learning. Close to one-third of training continues to be delivered in Washington, to address needs that cannot be met satisfactorily through the regional programs. Training is delivered in Arabic, English, French and Spanish, with interpretation into Chinese, Russian and other languages where relevant.

Table 6.2. Overview of Regional Technical Assistance Centers in FY 2005

	CARTAC	PFTAC	East-AFRITAC	West-AFRITAC	METAC	Total
Number of seminars held	33	4	11	11	3	62
Number of seminar participants	879	87	227	448	54	1,695
Number of countries/territories served	20	15	6	10	10	61
Number of resident advisors	6	4	4	6	5	25

Table 6.3. IMF Institute Training Programs, FY 2002–FY 2006

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Headquarters training [1/]					
Course weeks	74	84	77	80	78
Participant weeks	2,746	3,083	2,848	2,993	2,867
Regional training institutes and programs [2/]					
Course weeks	133	121	140	148	152
Participant weeks	4,261	3,969	4,449	4,541	4,808
Other overseas training					
Course weeks	30	31	32	27	38
Participant weeks	828	899	949	797	1,124
Distance learning					
Course weeks	13	13	9	16	16
Participant weeks	519	481	324	594	602
Total course weeks	250	249	258	271	284
Total participant weeks	8,354	8,432	8,570	8,925	9,402

Source: IMF Institute.

1/ Excludes residential component of distance learning courses, which are counted below under distance learning.
2/ Includes the Joint Vienna Institute (JVI), the IMF-Singapore Regional Training Institute (STI), the IMF-Arab Monetary Fund Regional Training Program, the Joint Africa Institute (JAI), the Joint China-IMF Training Program, and the Joint Regional Training Center for Latin America. Data for the JAI do not include courses delivered by the African Development Bank and the World Bank, which are partially financed by the Fund, and data for the JVI do not include courses delivered by the Austrian authorities, which have been partially funded by the IMF from FY 2004.

Cooperation with Other Technical Assistance Providers

The IMF actively cooperates with other technical assistance providers to exploit synergies and bring in additional inputs that the IMF does not provide (such as office and computer equipment, training equipment and other materials) or where it does not have a comparative advantage, thus leveraging the IMF's limited technical assistance resources and avoiding duplication of effort or inconsistent technical advice. Such cooperation takes various forms, such as exchange of information, provision of complementary forms of technical assistance, and joint approaches to the delivery of technical assistance. Some joint approaches have already been mentioned above: the coordination, mobilization, and financing of efforts to combat money laundering and terrorism financing; international efforts in the area of standards and codes; and the regional technical assistance centers. In addition, the IMF joined the African Capacity Building Foundation (ACBF), which is the implementing agency of the Partnership for Capacity Building in Africa (PACT), as part of the IMF's Africa Capacity Building Initiative.[106] The IMF also joined the Financial Sector Reform and Strengthening (FIRST) Initiative in April 2002. The FIRST Initiative is a channel for funding the involvement of the private sector in technical assistance to the financial sector.

CHAPTER 7

STRENGTHENING THE INTERNATIONAL FINANCIAL SYSTEM

Introduction

The discussion of the reform of the international financial system rose to prominence in the late 1990s in the aftermath of the economic and financial crises in the Asian countries. The package of reforms grouped under the rubric of "international financial architecture" is designed to respond to the lessons of the crises with the aim of reducing the frequency and magnitude of future crises. They complement the increased attention being given to external vulnerability analyses and to the conditions governing access to IMF resources.

The IMF collaborates closely with national and other international agencies in the effort to strengthen the international financial system. It takes the lead in those areas that fall within its mandate, whereas other agencies take the lead in areas that fall within their mandate.

The reforms to strengthen the international financial system seek to promote transparency in economic policy-making, improve oversight of domestic financial systems, encourage adoption of international best practices in business and government operations, enhance the flow and accuracy of economic data, and limit moral hazard.[107] They may be grouped into four categories:

- Improving financial sector surveillance.
- Development of standards and codes of good practice.
- Enhancement of transparency in the IMF and its member countries.
- Involvement of the private sector in crisis resolution.

Financial sector surveillance was discussed in Chapter 2, under "Strengthening Surveillance to Prevent Financial Crises." The other three categories of reforms are discussed below.

The Standards and Codes Initiatives

The development, dissemination, and adoption of internationally accepted standards and codes of good practice in various areas of policy-making contributes to improved economic policy implementation by indicating areas in which transparency and hence governance more widely, can be enhanced by increasing the accountability and credibility of economic policy. It improves the working of markets by allowing participants and policy makers to compare information on country practices against agreed benchmarks of good practice. Standards and codes help highlight potential vulnerabilities and enhance market discipline, and are thus an important component of crisis prevention.

The IMF and World Bank have endorsed internationally recognized standards and codes in twelve areas as important for their work, and for which ROSCs are prepared (Box 7.1).[108] These fall into three groups: transparency standards, financial sector standards, and market integrity standards. The IMF takes the lead in the development and monitoring of the transparency standards. The IMF and World Bank jointly assess observance of, but do not develop, the financial sector standards in the context of the FSAP—except in the area of combating money laundering and terrorism financing, for which assessments can be conducted either by the IMF or the World Bank, or by the FATF or FSRBs, as mentioned previously. The World Bank and other international standard-setters take the lead in the development of and monitoring of the market integrity standards.

The Executive Board periodically reviews such work on standards and codes, most recently in July 2005.[109] In addition, summary information on published ROSCs is available on the IMF's website.

Data Dissemination Standards

The 1994 Mexican financial crisis heightened the awareness in the international community of the essential role of data transparency in support of the operation of financial markets and in reducing the likelihood of financial crises. In 1996 and 1997, the IMF established data dissemination standards in 1995 to guide members in the publication ("dissemination") of their economic and financial data. Those standards were to consist of two tiers: a voluntary general standard, the General Data Dissemination System (GDDS), that should apply to all IMF members and would focus on improving statistical systems; and a more demanding standard, the Special Data Dissemination Standard (SDDS), that should apply to those member countries having or seeking access to international capital markets.[110] Participation in the GDDS and the SDDS is voluntary and by end-2005, about one-third of member countries had subscribed to the SDDS and about 45 percent participated in the GDDS system, while close to 20 percent of the member countries do not yet participate in either the GDDS or the SDDS.

As a cornerstone of the implementation of the GDDS and the SDDS, the IMF maintains an electronic Dissemination Standards Bulletin Board (DSBB) on the Internet.[111] The DSBB identifies member countries subscribing to the GDDS and the SDDS, and provides wide and easy access to their metadata (which describe countries' statistical practices with respect to data production and dissemination). Both the GDDS and the SDDS are implemented flexibly to adapt to changing circumstances and are reviewed periodically to make needed adjustments.

The GDDS and the SDDS provide guidance on four dimensions of data production and dissemination in terms of (i) coverage, periodicity, and timeliness of data; (ii) access by the public; (iii) integrity of the disseminated data; and (iv) quality of the disseminated data. For each of the four areas, the GDDS and the SDDS describe two to four good practices that countries should follow.

The General Data Dissemination System

The GDDS provides a framework for member countries to evaluate and prioritize their needs for data improvement, and hence to mobilize technical assistance; and guides member countries in the dissemination of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics.[112] It offers recommendations on good practice, based on current practices of national statistical agencies, for producing and disseminating core and encouraged sets of data. However, data cannot be accessed directly through the GDDS site on the DSBB.

The Special Data Dissemination Standard

Unlike the GDDS, whose objective is to improve data quality over time, the SDDS focuses on data dissemination by countries that, in general, already meet high data quality standards.[113] Its purpose is to guide member countries in the provision to the public of comprehensive, timely, accessible, and reliable economic and financial statistics. The SDDS is more prescriptive than the GDDS, and sets specific standards that must be observed by subscribing countries. . The SDDS covers primarily macroeconomic and financial data, while the GDDS also covers socio-demographic indicators. Member subscription to the SDDS carries a commitment to provide certain information about their compilation and dissemination practices of economic and financial data. Subscribers must agree (i) to post information about their data dissemination practices on the IMF's external website on the DSBB, and (ii) to establish an Internet site containing the actual data, called a National Summary Data Page, which is accessible via hyperlinks on the DSBB. Starting for 2006, the Fund will prepare and publish annual observance reports for each SDDS subscriber.

Box 7.1. Internationally-Monitored Standards and Codes

Transparency Standards

The standards in these areas were developed by the IMF who also assesses their observance by members. They cover issues of data and policy transparency.

- **Data Transparency:** The IMF's Special Data Dissemination Standard/General Data Dissemination System (SDDS/GDDS).
- **Fiscal Transparency:** The IMF's Code of Good Practices on Fiscal Transparency.
- **Monetary and Financial Policy Transparency:** The IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies* (usually assessed by the IMF and the World Bank under the Financial Sector Assessment Program).

Financial Sector Standards

The standards in these areas have been developed by other institutions and members' observance is generally assessed under the FSAP.

- **Banking Supervision:** Basel Committee's Core Principles for Effective Banking Supervision.
- **Securities:** International Organization of Securities Commissions' *Objectives and Principles for Securities Regulation*.
- **Insurance:** International Association of Insurance Supervisors' *Insurance Core Principles*.
- **Payments Systems:** Committee on Payments and Settlements Systems' Core Principles for Systemicall Important Payments Systems, complemented by the Recommendations for Securities Settlement Systems.
- Anti-Money Laundering and Combating the Financing of Terrorism: Financial Action Task Force's *40+9 Recommendations*.

Market Integrity Standards

Standards in these areas have been developed by relevant institutions and the World Bank is in the lead in undertaking assessments. Some of these areas may be assessed under the FSAP.

- **Corporate Governance:** OECD's Principles of Corporate Governance.
- **Accounting:** International Accounting Standards Board's *International Accounting Standards (IAS)*.
- **Auditing:** International Federation of Accountants' *International Standards on Auditing.*
- **Insolvency and Creditor Rights:** World Bank's *Principles and Guidelines for Insolvency and Credito Rights System* and United Nations Commission on International Trade Law's (UNCITRAL's) *Legislative Guide on Insolvency Law*[1].

[1] Staffs of the World Bank and UNCITRAL, in consultation with IMF staff, have recently reached agreement to unify their approaches and produce a single standard.

The Data Quality Assessment Framework

Following experience gained in implementing the data standards initiative, and responding to the need to focus on high-quality data in the crisis prevention and resolution strategy, the Data Quality Assessment Framework (DQAF) was developed to complement the GDDS and the SDDS. The DQAF enables policy makers and market participants to look beyond data dissemination and assess countries' data quality, institutional environments, statistical processes, and characteristics of the statistical products, and to compare these against international standards.[114] Beginning in 2001, the data modules of the ROSCs (see below) have integrated the DQAF into the assessment of member practices in data compilation and dissemination. By early 2007, the metadata of SDDS countries will be presented on the electronic bulletin board (DSBB) in the DQAF view in addition to the traditional SDDS view. A query function will also be added, making the DSBB a more user-friendly resource for research.

Code of Good Practices on Fiscal Transparency

The Code of Good Practices on Fiscal Transparency was approved by the Executive Board in 2001 and is to be updated in early-2007. [115] The present Code is based on the following four core principles, which are intended to be maintained in the proposed update in 2007:

- **Institutional Clarity.** Government's role and the way its agencies interact.
- **Open Budget Processes.** Budget preparation, execution and reporting.
- **Public Information.** Government's commitment to make information available.
- **Integrity.** Strong oversight and data quality information.

The Code sets out the principles and practices that governments should follow in order to achieve these objectives. These principles and practices have been distilled from the IMF's knowledge of fiscal management practices in member countries. An accompanying manual explains the requirements of the Code and provides illustrations of the various good practices relative these requirements. A related questionnaire is designed to gather basic information on fiscal institutions and practices as a basis for review of a country's fiscal management system. Reporting of country specific fiscal ROSCs are published on the IMF Website.[116]

Code of Good Practices on Transparency in Monetary and Financial Policies

The IMF developed the Code of Good Practices on Transparency in Monetary and Financial Policies in cooperation with the Bank for International Settlements and in consultation with a representative group of central banks, financial agencies, other relevant international and regional organizations, and selected academic experts. It was adopted in September 1999.[117]

The Code covers two sets of policies and institutions—monetary policies/central banks and financial policies/financial agencies. It contains a list of broad principles and practices that should guide central banks and financial agencies toward the goal of transparency in monetary and financial policies. The Code rests on two principles:

- Monetary and financial policies can be made more effective if the public knows the goals and instruments of policy and if the authorities make a credible commitment to meeting them.
- Good governance calls for central banks and financial agencies to be accountable, particularly where the monetary and financial authorities are granted a high degree of autonomy.

Reports on the Observance of Standards and Codes

ROSCs are the primary instrument for reporting on an assessment of countries' observance of standards and codes.[118] They are being increasingly integrated into IMF operations in countries that agree voluntarily to take part.[119] Publication of ROSCs is also voluntary. In defining the ROSC program, priority is given to members where the exercise would have the highest return in terms of stability for the country and the international financial system, and members for which the developmental impact is likely to be important,

including in a regional context. In addition to these criteria, updates are prioritized according to the significance of gaps in observance identified in previous standard assessments. As part of the IMF's Medium-Term Strategy and the implementation of the recommendations of the 2005 review of the initiative, the IMF introduced a number of operational changes to its work on standards and codes. These aimed at improving the country coverage and prioritization of ROSCs to make more efficient use of resources; the integration of ROSCs with IMF surveillance and technical assistance, for a better use of ROSC findings and greater support of reform efforts; and the clarity and timeliness of ROSCs.

Fiscal ROSC's have been instrumental in enhancing the effectiveness of surveillance. Notably, fiscal ROSCs for emerging market economies can help detect and identify weaknesses in the budgetary framework and budget management practices or in the fiscal data that could mask underlying fiscal vulnerabilities. Fiscal ROSCs also can help prevent crises by creating incentives to improve budget management and the quality of fiscal data as more fiscal transparency tends to be rewarded by better credit ratings and a lower sovereign premium.[120]

Data and fiscal ROSC assessments are usually stand-alone exercises, not undertaken as part of any other surveillance function; financial sector ROSCs are normally undertaken in the context of the FSAP. Where important aspects of regulation or policy formulation are done at the supranational level, a ROSC for a regional group—such as the European Monetary Union—may be undertaken. ROSC assessments are voluntary and must be requested by country authorities. Publication of the ROSC is also voluntary, but publication is presumed.

Transparency at the IMF

There has been a major shift toward openness at the IMF within the last decade. The institution has taken a number of steps that aim to encourage greater transparency of members' policies and data, and to enhance the Fund's own external communications.[121] These include an expanded publication program and an extensive Internet web site. Most papers submitted to the Executive Board, whether on country matters or policy issues, are now published under the IMF's Transparency Policy. Internal and external reviews of IMF policies and operations, often conducted in consultation with the public, are also released. Contacts with and outreach to non-government organizations and national legislators, think tanks, and media have expanded.

Since July 2004, a policy of voluntary but presumed publication applies to practically all country documents submitted to the Executive Board, including most surveillance and supporting documents, those on the use of IMF resources by a member, and those on Policy Support Instruments (PSI). A presumption of publication means that, although the express consent of the member concerned is required for publication of a document covered by the Transparency policy, such publication is expected within 30 calendar days of the Executive Board meeting at which that document was considered. The member's intentions regarding publication should preferably be indicated prior to the Executive Board meeting.

Since July 2004, the Managing Director generally will not recommend that the Executive Board approve a member's request for exceptional access to the IMF's general resources, unless the member consents to the publication of the associated staff report. Further, the Managing Director will not recommend Executive Board approval of various decisions involving PRGF arrangements, HIPC debt relief, or PSIs if the member concerned does not consent to publication of the PRS documents.

Publication is voluntary but not presumed for the following country documents: ROSCs, FSSAs, FSAP technical notes that are not circulated to the Executive Board as background information for Article IV consultations, and documents related to staff-monitored programs—although the IMF encourages members to publish these reports.

Publication of IMF policy documents that do not deal with administrative matters is presumed, unless the Executive Board decides otherwise. Publication of policy documents that are related to administrative matters is decided by the Executive Board on a case-by-case basis.

Prior to publication, the authorities may request that information that is either highly market-sensitive—mainly on exchange rates and interest rates, in banking and fiscal areas, and in vulnerability assessments—or involves the premature disclosure of policy intentions be deleted from the published version. Deletions do not apply to information that is in the public domain or to politically sensitive information that is not highly

market sensitive. When deletions requested by the authorities would, in the view of the Managing Director, undermine the overall assessment and credibility of the IMF, he (she) may recommend to the Board that the document not be published. IMF documents may also be modified prior to publication to correct factual errors, including errors in characterizing the authorities' views.

Members generally have the opportunity to make a statement regarding IMF reports and discussions on their country, and this statement is published together with the staff report, if the authorities wish.

Publication of IMF policy documents that do not deal with administrative matters is presumed, unless the Executive Board decides otherwise. Publication of policy documents that are related to administrative matters is decided by the Executive Board on a case-by-case basis. Prior to publication of an IMF policy document, the Managing Director may make necessary factual corrections and deletions (including of highly market-sensitive material and country-specific references), provided that staff's proposals shall not be modified prior to publication.

Private Sector Involvement in Crisis Prevention and Resolution

Rationale for Private Sector Involvement

The IMF has intensified its work with member countries to strengthen the involvement of the private sector in preventing and resolving financial crises. [122] Efforts to involve the private sector are based on several considerations:

- Economic programs need to be fully financed. A country's financing gap is closed by a mixture of external financing and domestic adjustment. However, official financing is limited, and there may be social limits to the size of an economic adjustment that a country could undertake. This would necessitate a financing contribution from the private sector, particularly in cases where countries' exposure to this sector is significant.

- There is a need for orderly international adjustment. Where countries face financing difficulties, sovereign defaults and/or the imposition of exchange controls should be avoided to the maximum extent possible. Voluntary and market-based adjustment mechanisms that seek to honor contractual obligations are emphasized. Countries need to resolve their financing difficulties in ways that facilitate confidence and economic growth and minimize the disruption to the international financial system. The involvement of private creditors would be important to achieve this objective.

- Equitable burden-sharing among creditors is required to ensure inter-creditor equity, which must involve private creditors.

- The use of official resources to shelter private creditors from the consequences of their previous lending decisions could give rise to moral hazard. By reducing the incentives for efficient assessment and management of risk, this could encourage private creditors to over-lend, thereby increasing the likelihood of future crises. An important principle underlying private sector involvement in crisis resolution is that both creditors and debtors must take responsibility for their financing decisions.

The private sector can contribute to crisis prevention and resolution by providing financing in the amounts and on the terms needed to help close a country's financing gaps and maintain or restore the country's medium-term external viability. It can do so in two ways: (i) by providing capital market financing on appropriate terms; and (ii) by agreeing to a debt restructuring that lowers the country's debt service payments. The method the IMF relies on in individual cases to secure the private sector's contribution depends on its judgment about the size of the country's financing gap, the country's underlying debt service capacity, and the country's prospects for rapidly regaining market access where such access has been cut off.

Access to Capital Market Financing

An important element of the IMF's strategy to prevent or resolve financial crises is to help countries maintain or restore their access to capital market financing on terms that are compatible with medium-term external sustainability. To achieve this objective, the IMF may rely on the confidence-building effect of a credible, IMF-backed comprehensive adjustment program to persuade private creditors to provide the required

financing. The IMF would normally use this catalytic approach if the member's financing requirements are moderate or, if the financing requirements are large, the member has good prospects for rapidly regaining capital market access on appropriate terms based on the strength of its economic program. In case of a large financing requirement, any exceptional access to IMF resources would require substantial justification and would serve as bridge financing until capital market access is regained. Use of the catalytic approach requires judgments regarding the country's prospects for regaining medium-term external sustainability and the pace at which the combination of strong policies and official financing will allow members to regain capital market access.

Where the catalytic approach is judged to be insufficient to lead to a quick change in confidence and restoration of market access, the IMF may back more concerted efforts by the member country and the international community to obtain the required financing from the private sector. A broad range of instruments may be used under this more concerted approach. Some of these are based on the voluntary participation of the private sector, while others are statutory-based. These instruments would normally be used in conjunction with a comprehensive adjustment program and therefore complement the catalytic approach. Some of the instruments used by member countries in recent years are summarized below:[123]

- **Debt Restructuring.** Where countries face severe budget financing problems, early restoration of full market access on terms consistent with medium-term external sustainability appears unrealistic, and the fiscal adjustment needed to continue servicing the debt is not feasible, a sovereign debt restructuring may become necessary. In this case, an IMF-supported program can provide an acceptable, realistic, and financeable framework and a viable medium-term debt service profile. If countries decide to temporarily suspend debt service payments pending sufficient action by their creditors to support the restoration of medium-term external viability, the IMF could invoke its lending into arrears policy to enable countries' continued access to official financing while they undertake good faith efforts to negotiate a comprehensive debt restructuring with private creditors. In recent years, Ecuador, Pakistan, Russia, Ukraine, and Uruguay have reached agreement on international sovereign bond restructurings. [124]

- **Voluntary Debt Swaps.** Reprofiling debt-service obligations by persuading investors to exchange obligations that mature in the near term for instruments that mature over the medium and long term—used by Argentina and Turkey in 2001.

- **Rollover of Interbank Lines of Credit.** Securing agreement with international commercial banks to voluntarily maintain exposure to interbank and trade-related credits, since withdrawal of such financing in crises can exert pressure on official reserves, limit domestic bank lending, and amplify upward pressures on domestic interest rates that may call into question fiscal and corporate solvency—used by Brazil in 1999, Indonesia in 1998-99, Korea in 1998, and Turkey in 2000-01.

- **Private Contingent Credit Lines.** Mobilizing financial resources from private creditors in times of difficulty through credit lines negotiated and priced in periods of relative tranquility, as insurance against adverse liquidity developments that could disrupt private market financing—used by Argentina in 1996, Indonesia in 1994-97, and Mexico in 1997.

- **Rollover Agreements with Domestic Investors.** Seeking agreement with domestic investors to maintain or increase exposure to sovereign debt instruments, which may require regulatory action or the use of moral suasion—used by Argentina in 2001.

- **Regulatory Requirement for Investment.** Requiring domestic financial institutions to hold government debt over and above that needed for normal liquidity purposes, so as to increase demand for government securities or to reduce rollover risk for the government—used by Argentina in 2001.

Collective Action Clauses in International Sovereign Bond Contracts

The IMF endorses the use of collective action clauses (CACs) in international sovereign bond contracts, in recognition of their potential role in facilitating the restructuring of international sovereign bonds in an orderly manner.[125] The IMF—and the official

community more generally—is actively promoting the use of collective action clauses. Such clauses include, but are not limited to: (i) majority restructuring provisions, which enable a requisite majority of bondholders to bind the minority to the terms of a restructuring agreement and (ii) majority enforcement provisions, which enable the requisite majority to prevent a minority from initiating litigation during the period when negotiations are taking place. The focus is on jurisdictions where such bonds are not yet the market standard. [126] The IMF has issued an operational guidance note on encouraging the use of CACs during Article IV consultations and amended its *Guidelines for Public Debt Management* to reflect the use of CACs. The IMF is also developing an international sovereign bond database for use by IMF staff.

Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets

The IMF has supported the creation of the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* under the umbrella of the Institute for International Finance. The Principles were issued in November 2004 and endorsed by the G-20. This is a set of voluntary market-based guidelines that promote greater direct cooperation between sovereign-debt issuers in emerging markets and their investors and creditors, in order to avoid crises or, if necessary, cope with those that arise.

IMF staff also maintains an active dialogue with issuers of emerging market bonds and with private market participants. A *Forum for Public Debt Managers* has been established to provide opportunities for public debt managers to discuss market developments and exchange views and experiences—including on proactive liability management operations, the use of CACs, and the development of systematic investor relations programs.

CHAPTER 8

COLLABORATION WITH THE WORLD BANK AND THE WORLD TRADE ORGANIZATION

The original Bretton Woods conference called for the creation of three international organizations. While the IMF and the World Bank were created shortly after the conference, an international organization devoted to the facilitation of international trade was only created in 1996, when the World Trade Organization (WTO) was established incorporating the General Agreement on Tariffs and Trade (GATT). While the IMF cooperates with a large number of international organizations, including all the regional development banks, the common origin and complementary mandates of the IMF, World Bank, and WTO led to intense and well-defined forms of cooperation.

Collaboration with the World Bank

Overlap of IMF and World Bank Activities

The IMF and the World Bank were given different, but complementary, mandates. The World Bank was established to promote post-war reconstruction and the flow of capital to developing countries. Its core objective today is to promote economic growth and conditions conducive to efficient resource allocation and poverty reduction, which it pursues through project financing and through sectoral and structural adjustment lending.

Though their core mandates are different, there has always been some overlap of activities and policy concerns:

- **Structural policies.** IMF surveillance and lending operations moved away from a narrow focus on exchange rate and other macroeconomic policies to a broader focus encompassing structural policy issues, given their impact on macroeconomic stability and the sustainability of policies. There are two reasons for this: (a) the IMF's recognition of the longer-term and supply-oriented nature of the balance of payments adjustment process and (b) the IMF's increased involvement, over time, in surveillance and lending operations in developing and transition countries, where long-run structural problems are of central importance to economic stabilization and growth. The creation of the Structural Adjustment Facility in 1986, the Enhanced Structural Adjustment Facility in 1987, and the Poverty Reduction and Growth Facility in 1999 reflected this shift in emphasis.

- **Poverty-reduction.** The IMF has become increasingly concerned about the social and poverty impact of its policy advice in low-income countries.

- **Macroeconomic policy environment.** The World Bank's experience led to the recognition that the overall macroeconomic policy environment is crucial to the success of individual investment projects and sectoral programs. In response to the serious balance of payments problems affecting many developing countries stemming from the sharp deterioration of the terms of trade and from the weakness in domestic policies and institutions, the Bank introduced structural adjustment lending in 1980 to support policies to promote economy-wide structural changes. Subsequently, it introduced sector adjustment lending to support structural changes in specific sectors.

The overlap and increasing integration of the activities and policy concerns of the two institutions required strategic decisions to avoid potentially undesirable consequences, including cross-conditionality and conflicting policy advice, duplication of effort and waste of resources, and confusion among the membership regarding which institution is responsible for what. Accordingly, the IMF and the World Bank

have in place guidelines for collaboration between the two institutions since 1966, which have been revised and strengthened on a number of occasions since then. The current procedures are set out in a 1989 Concordat (*Bank-Fund Collaboration in Assisting Member Countries*); and a 1998 *Report of the Managing Director and the President on Bank-Fund Collaboration*. Additional guidelines exist for Bank-Fund collaboration in financial sector work and on public expenditure issues.[127]

An External Review Committee on Bank-Fund Collaboration has been set up to review basic parameters of Fund-Bank collaboration. The committee is preparing a report that will benefit from extensive discussions with IMF and World Bank staff, management, and Boards, and will be discussed with the G-20.

Lead Roles of the IMF and the World Bank

The 1989 Concordat and the 1998 Report of the Managing Director and the President re-affirm the original mandates of the IMF and the World Bank, and set out the primary areas of responsibility of each institution in the pursuit of that mandate. In situations where both institutions are involved in policy-based lending to a country, each institution takes the lead role in the areas in which it has primary responsibility. Where responsibility is shared, the lead agency is determined on a case by case basis. Staff reports on the use of IMF resources usually contain a box explaining the allocation responsibilities for structural measures between the IMF and the World Bank and which agency takes the lead role in individual reform areas.

Areas of primary responsibility of the IMF include macroeconomic analysis and forecasting, macroeconomic policy advice, budgeting and public expenditure management, fiscal and macroeconomic management, institutional arrangements underlying monetary and exchange rate policies, balance of payments adjustment and financing, crisis prevention and resolution, offshore financial center assessments, transparency standards, collection, compilation, and dissemination of macroeconomic statistics, and training in macroeconomics.

Areas of primary responsibility of the World Bank include national development strategies and policies, poverty analysis and monitoring, social protection, sector strategies and policies, project financing, public administration, public enterprise reform, product and labor market reforms, market integrity standards, and training in development economics.

Areas of shared responsibility include tax policy and administration, financial sector work, trade policy, public expenditure policy and administration, public debt management, and the establishment of an environment conducive to private sector development.

To oversee and strengthen collaboration in their work on the financial sector and on low-income countries, the IMF and World Bank set up a Financial Sector Liaison Committee (FSLC) in September 1998 and a Joint HIPC/PRSP Implementation Committee (JIC) in April 2000.[128] The committees work to resolve differences of view between the staff of two institutions, ensure seamless cooperation, and coordinate work programs and the production of reports and briefings to the Executive Boards of the two institutions. The FSLC has played a critical role in coordinating and monitoring FSAP exercises, as well as devising measures to improve the program in recent years. A forthcoming report of the External Review Committee may make recommendations on the division of labor.

Principles of IMF-World Bank Collaboration

The 1989 Concordat and the 1998 Report of the Managing Director and the President set out the broad principles that should guide collaboration between the IMF and the World Bank.

- Countries in which both institutions are actively involved should have a clear understanding of which institution has primary responsibility in any given area of policy advice and reform.

- Before finalizing its position on key elements of a country's policies and reform agenda, each institution will solicit the views of the other and share its own thinking at as early a stage as feasible. When there are differences of view between the two institutions about policies and priorities in countries where both are involved, the disagreement should be resolved at the staff level or raised to the level of senior management for resolution. If the issue cannot be resolved at the management level before a World Bank lending operation or IMF-supported program is to be presented to the respective Executive Board, then management would highlight the disagreement to the Board prior to

the Board discussion, and at the time of meeting, indicate the nature of the disagreement and ensure that staff from the other institution are present at the Executive Board to present their views.

- Where a country's program supported by one institution includes macroeconomic and structural measures which fall within the other institution's areas of primary responsibility, advice to the authorities on the design of measures in the country's program and the subsequent monitoring should be provided by the institution with primary responsibility. Program reviews by each institution should be closely coordinated to the maximum extent possible.

- Integration and coordination of the views of either institution requires timely input from the other institution. In situations where either institution does not have the capacity or is unable to provide policy advice and expertise, whichever institution can provide input should do so in order to ensure that the country's program does not suffer. At the same time, the institution that is unable to provide input would review its work priorities with a view to better aligning them to the requirements of the country's program.

- Programs supported by the IMF and the World Bank should be complementary and part of an overall reform agenda owned by the member country. When presenting documents to their respective Executive Boards, the staff of the two institutions will indicate how programs supported by both institutions complement each other in supporting the overall reform agenda of the government.

- Each institution retains separate accountability for its lending decisions. Each institution proceeds with its own financial assistance according to the standards laid down in its Articles of Agreement and the policies adopted by its Executive Board.

- There should be a systematic exchange of information between the two institutions on future country work and mission plans by country. Deviations from the work plan or calendar would be communicated to the other institution without delay. Mission briefing papers and terms of reference should be shared with the other institution before they are finalized, to the extent feasible.

- The daily interactions and ad hoc contacts involving management and staff, and the monthly as well as ad hoc meetings between the Managing Director and the President, are supplemented with regular meetings of the senior staff of each institution. In addition, meetings are held to review the strategies of each institution for countries of common concern.

- Cross-participation in each institution's missions and parallel missions are effective ways to facilitate the coordination and timely integration of macroeconomic and structural policies in countries' programs and reform agendas. To be most effective, in cross-participation and joint missions the participating Bank or IMF staff should have a clear assignment of responsibilities.

Collaboration with the World Trade Organization

The IMF and the WTO work together on many levels, with the aim of ensuring greater coherence in global economic policymaking and reflecting the underlying common policy goal of limiting the use of restrictions on the international flow of goods and services, which can be affected through exchange or trade restrictions.

On an operational level, the IMF established the Trade Integration Mechanism (TIM) in April 2004 to support progress under the WTO's Doha round of trade talks (TIM is discussed in Chapter 5).

The collaboration of the IMF and the WTO was formalized in an agreement shortly after the creation of the WTO in 1996.[129] Article X of the IMF's Articles of Agreement calls for the IMF to cooperate with any general international organization and with public international organizations having specialized responsibility in related fields, while Article III.5 of the *Marrakesh Agreement Establishing the World Trade Organization* specifically calls for the WTO to cooperate with the International Monetary Fund such as reciprocal attendance at meeting sharing documents and IMF participation in the Balance of Payments Committee of the WTO.

The IMF has observer status at the WTO, and participates actively in many meetings of WTO committees, working groups, and bodies. For this purpose, the IMF maintains an office in Geneva to facilitate the regular interaction with the WTO. Trade policy issues feature prominently in IMF program and surveillance work wherever macro-relevant. Equally, IMF surveillance reports, including assessments of exchange rate policies, are important inputs to the WTO's Trade Policy Review Mechanism (TPRM) and the periodic reports on member countries' trade policies (Trade Policy Reviews).

Consultations

The WTO is required to consult the IMF when it deals with issues concerning monetary reserves, balance of payments, and foreign exchange arrangements. For example, WTO agreements allow countries to apply trade restrictions in the event of balance of payments difficulties. The WTO's Balance of Payments Committee bases its assessments of restrictions on the IMF's determination of a member's balance of payments situation.

Informal consultations between IMF and WTO staff concern mainly trade policy developments and advice for individual countries. The IMF and WTO also regularly share data and research. For example, in the context of the Doha Development Agenda and in response to a WTO request, the IMF completed studies on the erosion of preferences, trade-related loss of fiscal revenue, export subsidies, balance of payments safeguards, and exchange rate volatility and trade.

Trade Liberalization in Least-Developed Countries

The IMF and the WTO work together in the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries that was put in place in 1997. The Integrated Framework aims at strengthening the capacity of these countries to formulate trade policy, negotiate trade agreements, and tackle production challenges in their domestic economies. In addition, the Integrated Framework seeks to ensure that poorer member countries incorporate appropriate trade reforms into their Poverty Reduction Strategy documents, which form the basis for concessional support by the IMF.

CHAPTER 9

GOVERNANCE AND DECISION-MAKING

The IMF is governed by a Board of Governors, an Executive Board, and a Managing Director supported by three Deputy Managing Directors. Two advisory bodies, the International Monetary and Financial Committee and the Development Committee, provide a bridge between the Board of Governors and the Executive Board. [130]

Board of Governors

The Board of Governors is the highest decision-making body of the IMF.[131] The Board of Governors consists of one Governor for each of the 185 member countries of the IMF and one Alternate. They are usually ministers of finance or governors of central banks. They do not serve fixed terms, but hold their positions until successors are appointed. The Board selects one of the Governors as Chair.

The Board of Governors has delegated most of its authority to the Executive Board for its day-to-day operations. However, it has retained several important powers, including that to admit and suspend member countries, to increase or decrease the authorized quotas or shareholdings of the IMF, or to amend the Articles of Agreement of the IMF. The Board of Governors also endorses the IMF's budget and financial statements.

The Board of Governors meets annually, usually in a joint session with its counterpart in the World Bank, and usually in September or October. Special meetings of the Board of Governors may be called whenever requested by fifteen members or by members having one-quarter of the total voting power, but this has never been done to date. A quorum for any meeting is a majority of Governors having not less than two-thirds of the total voting power. Since 1953, two consecutive Annual Meetings are held in Washington, D.C., USA, and every third meeting is held in a member country other than the United States. Procedures also exist for the Board of Governors to take a vote on a specific question without calling a meeting.

International Monetary and Financial Committee

A Committee on Reform of the International Monetary System and Related Matters (The Committee of Twenty) was established in 1972 to study various aspects of the international monetary system after the collapse of the Bretton Woods par value system in 1971. The Committee recommended the creation of a permanent Council with appropriate powers. The Council would supervise the management and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity, and in this connection would review developments in the transfer of real resources to developing countries.[132] Pending the establishment of the Council, an Interim Committee of the Board of Governors on the International Monetary System was established in October 1974 and the Committee of Twenty was dissolved.

The Interim Committee had a composition similar to that proposed for the Council; but the Interim Committee was an advisory body, whereas the Council would be a decision-making body. The Second Amendment of the Articles of Agreement in 1978 made provision for a Council to be established by an 85 percent majority decision of the Board of Governors; however, to date the Council has not been established. In September 1999, the Board of Governors strengthened and transformed the Interim Committee into the International Monetary and Financial Committee (IMFC), to enhance the effectiveness of member oversight of the IMF at the political level.[133]

The IMFC remains an advisory body. It advises, and reports to, the Board of Governors on matters pertaining to:

- The management and adaptation of the international monetary and financial system, including the continuing operation of the

adjustment process, and developments in global liquidity and the transfer of real resources to developing countries.

- Proposals by the Executive Board to amend the Articles of Agreement.
- Sudden disturbances that might threaten the international monetary and financial system.
- Ad hoc requests by the Board of Governors.

IMFC members are governors of the IMF, Ministers, or others of comparable rank. Each member of the IMF that appoints an Executive Director, and each member or group of members that elects an Executive Director, is entitled to appoint one member of the IMFC and up to seven associates. Thus the IMFC has the same number of members and the same constituency groupings as the Executive Board of the IMF, although the IMFC member is not always from the same country as the Executive Director.

In practice, the IMFC selects a Chair from among its members, who serves for such period as the IMFC determines. Members of the IMFC, their associates, and Executive Directors or their alternates are entitled to attend the meetings of the IMFC, unless the IMFC decides to hold a more restricted session. In addition, the Managing Director participates in all IMFC meetings, and may be accompanied by up to two staff unless the session is a restricted one. The Secretary of the IMF serves as the Secretary of the IMFC. The IMFC may invite observers to attend its meetings.

The IMFC ordinarily meets twice a year, in April and at the time of the Annual Meetings of the Board of Governors, but ad hoc meetings may be requested at any time by any member of the Committee. In addition, in September 1999 the Board of Governors decided that meetings of the IMFC will normally be preceded by a preparatory meeting of "Deputies," or representatives of IMFC members. The IMFC Chair calls meetings of Deputies in consultation with other IMFC members.

The IMFC issues a communiqué after each meeting summarizing the outcome of its discussions and giving strategic direction to the IMF's policy work for the near to medium term. On the basis of the communiqué, the Managing Director draws up a work program for the IMF for the coming 6-12 months. After discussion by the Executive Board, and amended as necessary, the work program forms the basis for the Board's work and calendar of meetings in the period ahead. An interactive relationship exists between the deliberations of the IMFC and the work of the Executive Board, in which the IMFC sets every six months the strategic direction going forward based on a thorough review of the progress made by the Executive Board in executing its work program during the preceding period.

Development Committee

The Committee of Twenty also recommended the establishment of a joint ministerial committee of the Boards of Governors of the IMF and the International Bank for Reconstruction and Development to carry forward the study of the broad question of the transfer of real resources to developing countries. Based on this recommendation, in October 1974 the Boards of Governors of the IMF and the World Bank established the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, called the Development Committee, to advise both Boards on development issues.

The Development Committee:

- Maintains an overview of the development process, giving urgent attention to the problems of least developed countries and those developing countries most seriously affected by balance of payments difficulties.
- Advises and reports to the Boards of Governors of the World Bank and the IMF on all aspects of the transfer of real resources to developing countries in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment, and official development assistance.
- Makes suggestions regarding the implementation of its conclusions, and reviews, on a continuing basis, the progress made in implementing these suggestions.

Members of the Development Committee are governors of the World Bank, governors of the IMF, Ministers, or others of comparable rank. They are appointed in turn for successive periods of two years by members of the Bank and members of the IMF. Each member of the World Bank or the IMF that appoints or elects an Executive Director and each group of members of the World Bank or the IMF that elects an Executive Director is entitled to appoint one member of the

Development Committee and up to seven associates. The Committee selects one of its members as Chair and appoints an Executive Secretary.

The Development Committee reports not less than once a year to the Boards of Governors of the IMF and the World Bank. It meets at the time of the annual meetings of the Boards of Governors, and, in addition, as often as required. In practice, the Committee normally meets twice a year, at the same time and location as the IMFC. The President of the World Bank and the Managing Director of the IMF participate in all meetings of the Development Committee, thus ensuring coordination of the work of the Development Committee with the work of the Executive Boards of the IMF and the Bank. The Development Committee issues a communiqué at the end of its meetings.

Executive Board

The Executive Board, under the chairmanship of the Managing Director, conducts the day-to-day business of the IMF through powers delegated to it by the Board of Governors.[134] It is the policy-making organ of the IMF, and is responsible for the approval of all IMF lending operations.

Size and Composition

The Executive Board currently comprises 24 Executive Directors, each of whom appoints an Alternate with full power to act for him/her when he/she is not present (see Appendix). Five Executive Directors are appointed by the five member countries having the largest quotas—currently the United States, Japan, Germany, the United Kingdom, and France—and serve at the discretion of the appointing member. The remaining 19 Executive Directors are elected by the rest of the membership (180 member countries) and serve for renewable two-year terms. Elections are normally held at the time of the annual meetings of the Board of Governors, in even-numbered years, but by-elections are held when needed.

From among the 180 member countries that elect 19 Executive Directors, Saudi Arabia, China, and Russia, by virtue of the size of their capital subscriptions to the IMF, are able on their own to elect an Executive Director. The remaining 177 member countries are organized into 16 multi-country constituencies to elect the remaining 16 Directors on the Board. Members decide among themselves which constituency to join, and vote for an Executive Director to represent the constituency. Geographical considerations have generally been important in the formation of constituencies, but some constituencies include both industrial and developing countries or members from different regions. In some constituencies the Executive Director is selected from the country with the largest voting power, while in others the post is rotated. Normally the Alternate Executive Director in multi-country constituencies is of a different nationality from the Director.

At the time of each election, the Board of Governors, by an 85 percent majority vote, may decide to increase or decrease the number of elected Directors. Furthermore, if, at the time of each election, the members entitled to appoint an Executive Director do not include the two members whose currency had been the most used in IMF transactions during the preceding two years, then these two members become entitled to appoint an Executive Director—and the number of elected Executive Directors may be reduced accordingly, unless the Board of Governors, by an 85 percent majority, decides not to do so because a reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board.

The custom of the Executive Board has been to have its most senior member serve as the Dean. The Dean fulfills functions such as addressing the Board when a formal occasion calls for a spokesman of the Executive Board. However, the Dean never speaks for the Executive Board on policy matters.[135]

Board Procedures

Executive Directors are stationed full-time at the IMF's headquarters in Washington, D.C., and the Executive Board functions in continuous session—it meets as often as IMF business dictates. Usually meetings are held three times a week. Any Executive Director can request a meeting on any matter. The Chair normally notifies the Executive Board of meetings at least two business days in advance, and prepares the agenda for each meeting. A quorum exists when a majority of Executive Directors having not less than 50 percent of the total voting power is present, but the practice is for all chairs to be occupied at all times, either by the Director, Alternate Director, or a designated Temporary Alternate Director.

The Executive Board meets in ordinary or executive sessions. Most meetings are in ordinary sessions, and ordinary meetings may be formal or informal. Board decisions are taken only in formal sessions. Informal sessions are a forum for an open exchange of views on issues that are not yet at the stage at which a formal decision can be taken. They are often an occasion for the Board to be briefed by management and the staff on sensitive country developments, or to provide preliminary views on important policy matters or program discussions. Informal sessions are not subject to the minimum advance notice required of formal Board meetings, and may be called on very short notice. Ordinary meetings are open to attendance by members of the offices of Executive Directors, the Secretary, and such other members of staff as the Chair may determine.[136]

Executive sessions are held whenever the Managing Director or any Executive Director so desires. Attendance at executive sessions is limited to Executive Directors, the Managing Director, and the Deputy Managing Directors, except that for any particular session the Executive Board may permit other specified individuals to attend, such as the Secretary.

The starting point of a formal Executive Board meeting on any matter is generally one or more Board papers prepared by the staff and approved by the Managing Director or a Deputy Managing Director. These papers contain Management's and the staff's analysis and recommendations on the subject, and are issued to the Executive Board two to three weeks in advance of a Board meeting to give Executive Directors sufficient time to consult with their authorities and prepare an adequate response. There is usually no documentation for informal Board meetings—mostly a summary table or two issued just prior to the meeting.

Executive Directors express their views in written statements issued prior to the Board meeting or in oral statements during the meeting. The written statements, called "gray statements" or "grays," are preliminary and may be modified by Executive Directors after they are issued. Executive Directors are not subject to formal length or time constraints on their statements, though there are guidelines for effective and efficient interventions in the case of Article IV surveillance discussions.[137] They may intervene at any point during the meeting to ask questions and make comments, and discussions are frequently of an interactive nature.

Typically the Board spends about two-thirds of its time on member country surveillance and program matters. Most of its remaining time is spent on policy issues concerning the international monetary system and the world economy. In addition, there are administrative issues, such as the budget. Several Board committees have been set up, each overseeing a particular subject-matter. However, the Executive Board conducts the bulk of its work in the formal sessions of the Board, not through Committees. Executive Directors may travel frequently, especially to participate in policy discussions between IMF staff and member countries.

Board Committees

The Board maintains a number of standing committees that include Executive Directors. These committees are reconstituted every 2 years following the regular election of Directors and on the basis of proposals by the Managing Director. Membership in the committees should provide a reasonable distribution of workload, continuity, and geographical balance. There are also some formal requirements for some committees concerning the number of members. Other Executive Directors may participate in all regular meetings of these committees. There are currently 10 standing committees, the functions of which are described below.

- **Agenda and Procedures Committee.** Contributes to the development and smooth implementation of the Executive Board's work program.
- **Committee on the Annual Report.** Reviews and makes recommendations to the Board on the format and content of the IMF's Annual Report in line with the provisions of the Articles of Agreement and By-Laws, as well as with the IMF's commitment to transparency and its role in the international monetary system.
- **Committee on the Budget.** Considers from a broad perspective the Managing Director's budget proposals and other material circulated by the Managing Director regarding the IMF's administrative and capital budgets.
- **Committee on Executive Board Administrative Matters.** Considers and reports to the Executive Board on aspects of administrative policy regarding those employed in Executive Directors' offices.
- **Committee on Interpretation.** Considers and makes reports and

recommendations to the Executive Board on questions of interpretation. Legal questions are sent to the Committee by the Executive Board at the request of an Executive Director.

- **Evaluation Committee.** Follows closely the evaluation function in the IMF and advises the Executive Board on matters relating to evaluations.
- **Pension Committee.** Decides matters of a general policy nature arising under the Staff Retirement Plan.
- **Ethics Committee.** Considers matters relating to the Code of Conduct for IMF staff and may also provide guidance to Executive Directors, at their request, on ethical aspects of the conduct of their staff.

Executive Directors hold the chairmanship of all but the two committees on budget, and pensions, which are chaired by the Managing Director. The Secretary of the IMF or his or her representative serves as the Secretary of every committee except the Ethics Committee.

Voting and Consensus Decision-Making

The Executive Board's formal voting and decision-making system is described in Box 9.1. In practice, however, the Executive Board rarely takes a formal vote. Instead, because the IMF is a cooperative institution, the Executive Board seeks to work by consensus. Rule C-10 of the *By-Laws, Rules, and Regulations* stipulates that "The Chairman shall ordinarily ascertain the sense of the meeting in lieu of a formal vote." Any Executive Director may request that a formal vote be taken; however, this rarely happens. The "sense of the meeting" is a position supported by Executive Directors having sufficient votes to adopt that position if a vote were taken.

Consensus decision-making by the Executive Board facilitates broad participation by members in the governance of the IMF. Since a formal vote is not taken, the official record of the meeting does not reflect individual voting positions unless Executive Directors specifically request that their position be recorded in the minutes. In recent years the IMF has been seeking ways of strengthening the participation of developing countries and countries in transition in decision-making at the institution. These efforts are summarized in Box 9.2.

Some Board decisions are taken without a Board meeting. In these cases, decisions are circulated to the Board for approval on a lapse-of-time basis.

Summings Up

Executive Board meetings may or may not conclude with a formal decision. Where they do not, the sense of the meeting is normally captured in a summing up of the Executive Board's discussion, prepared by the Secretary's Department of the IMF. In cases where a formal decision is not taken, the summing up may carry the force of a formal decision. Even if a formal decision is taken at the end of the meeting, a summing up of the discussion is normally prepared to document the context in which the Executive Board took the decision. The summing up may document any significant minority views. This occurs rarely in the cases of country discussions, but it is routine in cases of policy discussions. When the Executive Board's discussion of a matter is of an exploratory or continuing nature, not intended to arrive at a decision of any sort, the Chair may make concluding remarks at the end of the discussion in lieu of a formal summing up of the discussion.

The summing up is read out at the end of the Board meeting for comment by Executive Directors. It may be revised on the basis of any such comments. In the case of a country discussion, the revised summing up is cleared by the Executive Director representing the particular country, before it is formally issued by the IMF. In the case of a policy discussion, the revised summing up is sent for clearance by all Executive Directors, after which it is formally issued. At the final clearance stage, Executive Directors may suggest further changes to the summing up. All the changes can only be accepted if they are consistent with the record of the discussion and the practice is to limit changes to the summing up, after it is read out at the end of the Board meeting, to only those that are necessary to ensure that the summing up accurately captures the sense of the Board discussion.

The summing up, and any formal decision, forms part of the minutes of the meeting. The minutes constitute the IMF's official record of the Executive Board's discussion of the subject.

Press statements are issued by the IMF after most Board meetings, in the form of a Public Information Notice (PIN) for policy and country surveillance discussions or a Chair's Statement or Acting Chair's Statement for country discussions involving the use of IMF resources.

Box 9.1. The IMF's Voting System[1]

Voting Power of Individual Members and Constituencies

Voting in the IMF is weighted by the relative sizes of members' quotas. Article XII, Section 5 (a) of the IMF's Articles of Agreement stipulates that "Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights." Based on this formula, and on quotas prevailing as of November 2006, the distribution of voting power among individual members of the IMF and among constituency groupings as of November 2006 is shown in the Appendix.

The IMF's voting system distributes voting power largely on the basis of members' relative contributions to the IMF's resources. The "basic" votes—the 250 votes assigned to each member independent of quota—have a small equalizing effect on the distribution of voting power, offsetting slightly the impact of quotas, and hence benefit the members of the IMF with smaller quotas. Thus, the share of total voting power of these members slightly exceeds their share of total quota, and the opposite is true in the case of members with larger quotas. However, the number of basic votes per member has remained unchanged since inception, while members' quotas have increased. As a result, the share of basic votes in total votes has fallen from 15.6 percent in 1958 to 2.1 percent since 1998, which has increased the dominance of quotas in determining relative voting strength at the IMF.

Voting Majorities

Under the IMF's Articles of Agreement, most Executive Board decisions are made by a majority of the votes cast. However, a number of decisions require special majorities of 70 percent or 85 percent of the total voting power.[2] A 70 percent majority is required to resolve financial and operational issues such as the rate of charge on the use of the IMF's resources and the rate of interest on SDR holdings. An 85 percent majority is required for the most important decisions, such as admission of new members, increases in quotas, allocations of Special Drawing Rights, and amendments to the Articles of Agreement. Given the voting structure, the United States alone, the European Union, or groups of other constituencies voting as a bloc can veto decisions requiring an 85 percent majority.

In multi-country constituencies, where differences of views may exist among constituents on matters before the Board, Executive Directors may present these differences of views to the Board for the record; however, in the event of a vote on any matter, the Executive Director must cast all the votes of the members in his or her constituency as a block, thus bringing his or her own judgment to bear on the matter.

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[1] See *Articles of Agreement*.

[2] See *Financial Organization and Operations of the IMF*, Appendix II, for a selected list of decisions requiring special majorities. Also: Leo van Houtven, *Governance of the IMF*, Appendix I.

Box 9.2. Voice and Representation

Background. There has been growing emphasis recently on voice and governance issues in the IMF. The "Monterrey Consensus" of March 2002 encouraged the IMF and the World Bank to find pragmatic and innovative ways "to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making, and thereby to strengthen the international dialogue and the work of these institutions as they address the development needs and concerns of these countries." In September 2002, the Development Committee requested the IMF and the World Bank to undertake a study on ways of broadening and strengthening the voice and participation of developing economies and economies in transition in decision-making at the Bretton Woods Institutions. Subsequent reports by the staffs of the IMF and of World Bank have been discussed by the IMFC and the Development Committee,[1] and work is continuing. The Board of Governors approved a resolution on quota and voice reform in September 2006.

Strengthening the Voice and Representation of Developing and Transition Countries. IMF and World Bank staff have identified various possibilities for strengthening the voice and representation of developing and transition economies, including: greater support for large, multi-country constituencies; increasing the effectiveness of the constituency system; increasing the size or reviewing the regional composition of the Executive Boards; strengthening developing and transition countries' voice at the Development Committee and the IMFC; and increasing the quota shares of developing and transition countries. At present, the Executive Board of the IMF is pursuing voice and representation issues on two different tracks—quota-related topics and administrative and capacity-building initiatives.

Quota Issues. The basic issues are whether some countries are "over-" or "under-" represented in the IMF based on economic size, and how best to achieve changes in quota shares to reflect such developments. Since voting power in both the IMF and the World Bank under the present system is strongly influenced by IMF quotas, the relative size of individual quotas has a direct bearing on the issue of participation in decision-making. In this regard, the approval of the resolution on quota and voice reform was a crucial first step. This resolution approved ad hoc quota increases for four clearly underrepresented countries (China, Korea, Mexico, and Turkey). Additional steps include a new quota formula, a second round of ad hoc quota increases, and an increase in basic votes. Progress will require a high degree of consensus among the membership. However, it should be noted that the tradition of relying on consensus decision-making at the Executive Board allows member countries to have a greater voice in decision-making than their voting shares might suggest.

Capacity-Building Initiatives. These initiatives seek to enhance the capacity of Executive Directors from developing and transition countries to participate effectively in decision making in the IMF and thereby better serve member countries. The following steps have already been taken: expanding the staff in offices of Executive Directors representing constituencies that have 20 or more members (namely, the offices of the two Executive Directors representing sub-Saharan African countries); making available informal, voluntary guidelines on the qualifications and duties of staff in Executive Directors' offices in order to attract high-quality staff; providing additional training and orientation for new members of staff in Executive Directors' offices; and using technological advances to facilitate close and effective communication by Executive Directors with their authorities in capitals, including the development of an Extranet in 2001—a secure vehicle for making electronic versions of Board documents available quickly to authorities in capitals—and the use of video-conferencing technology.

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[1] See Report of the IMF Executive Board to the International Monetary and Financial Committee (IMFC) on Quotas, Voice and Representation, available on the Internet at: http://www.imf.org/external/np/fin/2003/quota/eng/091203.htm.

Managing Director and Deputy Managing Directors

The Managing Director chairs the Executive Board, but has no vote except a deciding vote in the event of a tie. He or she is selected by the Executive Board for a five-year, renewable term. The Managing Director, in turn, appoints a First Deputy Managing Director and two Deputy Managing Directors to provide managerial support. One of the Deputies chairs the Board in the Managing Director's absence. An Executive Director selected by the Board acts as Chair in the absence of the Managing Director and the Deputy Managing Directors, although this is a rare occurrence. The Executive Director retains the right to vote when serving as Acting Chair.

The Managing Director is chief of the operating staff of the IMF and conducts the ordinary business of the IMF under the direction of the Executive Board. He or she is ultimately responsible for all aspects of the internal management and working of the institution and its relations and communications with the outside world. The three Deputy Managing Directors share oversight of the IMF's relationship with individual member countries, chair selected Executive Board meetings, and oversee staff work in specific areas.

Independent Evaluation Office

The Independent Evaluation Office (IEO) was established by the Executive Board in July 2001 to provide an objective and independent evaluation of the IMF's policies and operations. It focuses on (i) the systematic evaluations of the IMF's general policies; (ii) comparative cross-country analyses of the IMF's economic policy advice, in the context of surveillance as well as IMF-supported economic programs; and (iii) evaluations of completed country operations. These studies complement the review and evaluation work undertaken within the IMF.

The IEO operates independently of IMF management and at arm's length from the Executive Board. To ensure the IEO's independence, the Director of the IEO is appointed by the Executive Board for a non-renewable term of six years. The Director is an official of the IMF but not a staff member, and may not be appointed to the IMF staff at the end of the term. The Director is solely responsible for the selection of IEO staff on terms and conditions set by the Executive Board. IEO staff are not IMF staff members and report only to the Director of the IEO. The IEO's budget is approved by the Executive Board, but its preparation is independent of the budgetary process over which IMF management has authority. The IEO's work program is determined by the Director in light of consultations with interested stakeholders from both inside and outside the IMF. The work program is presented to the Executive Board for review but is not subject to the Board's approval. The IEO has sole responsibility for drafting evaluation reports, annual reports, press releases, and other public statements.

External Audit Mechanism

The IMF's external audit arrangements consist of an External Audit Committee and an external audit firm. The External Audit Committee has general oversight of the external audit function and internal control processes and consists of three members selected by the Executive Board and appointed by the Managing Director. The members serve for three years on a staggered basis. They are independent, are nationals of different IMF member countries and must possess the qualifications required to carry out the oversight of the annual audit. The responsibility for performing the external audit and issuing the opinion rests with an external audit firm, which is selected by the Executive Board in consultation with the External Audit Committee and appointed by the Managing Director.

CHAPTER 10

INTERNAL ORGANIZATION AND FINANCING

The present chapter provides a brief overview of the internal organization of the IMF. In addition, the chapter discusses the structure of the IMF's income, making particular reference to the ongoing efforts to remedy the operational deficit and restructure the income sources and position of the IMF.

Organizational Structure

Office of the Managing Director

At the apex of the IMF's internal structure is the office of the Managing Director, which includes the offices of the Deputy Managing Directors. The Managing Director's office has four units, which oversee pension fund investments, budget and planning, internal audit and inspection, and technical assistance management. The rest of the IMF comprises the area departments, functional and special services departments, information and liaison department and offices, and support departments. Each department and each unit in the Managing Director's Office is headed by a Director who reports to the Managing Director.

Investment Office

- Manages the assets of the Staff Retirement Plan and the Retired Staff Benefits Investment Account.

Office of Budget and Planning

- Prepares the medium-term budget to help deliver the IMF's strategy.
- Issues guidelines to departments and offices for the preparation of their budgets and business plans.
- Monitors and controls expenditures within the overall budget.
- Coordinates budget policy and administrative issues with Senior Budget Managers and the Board's Committee on the Budget.
- Plays a lead role in developing a system of performance indicators for the IMF.

Office of Internal Audit and Inspection

- Performs independent and objective audits and reviews of the effectiveness of the accounting and financial controls, and administrative processes of the IMF, and presents analyses and advice to IMF management and staff for improvement.
- Provides advisory services for business processes and work practices to help ensure that they are structured and conducted in a manner that enables the IMF to fulfill its objectives.
- Conducts internal investigations requested by the Managing Director.
- Assists the external audit process and supports the activities of the External Audit Committee.

Office of Technical Assistance Management

- Oversees technical assistance policy development, implementation, and reporting.
- Assesses the adequacy and the appropriate allocation of technical assistance resources, and mobilizes technical assistance resources.
- Promotes interdepartmental cooperation and coordination in the planning and delivery of technical assistance, and manages, with the relevant area department, the IMF's six regional technical assistance centers.
- Oversees the IMF's cooperation with all sources of external technical assistance financing.

Area Departments

Currently there are five area departments, with responsibilities divided roughly along geographical lines: the African Department, Asia and Pacific Department, European Department, Middle East and Central Asia Department, and Western Hemisphere Department. These, along with the functional and special services departments described below, are the core operational departments of the IMF. The area departments are the focal points for relations with member countries, and the IMF's economic policy discussions and lending operations with member countries are conducted primarily by these departments. The area departments:

- Execute the IMF's bilateral and regional surveillance functions, and assist in the preparation of multilateral surveillance reports;
- Negotiate lending programs with member countries and monitor implementation of these programs;
- Help arrange financing packages when members' financing needs cannot be met by the IMF alone;
- Report to, and seek guidance from, management and the Executive Board on discussions with member countries;
- Liaise closely with the World Bank and other donors on economic policy advice and financial assistance to member countries;
- Maintain resident representative offices in many countries that have IMF-supported economic programs or that are of systemic importance; and
- Maintain regional technical assistance centers to enhance the provision of technical assistance.

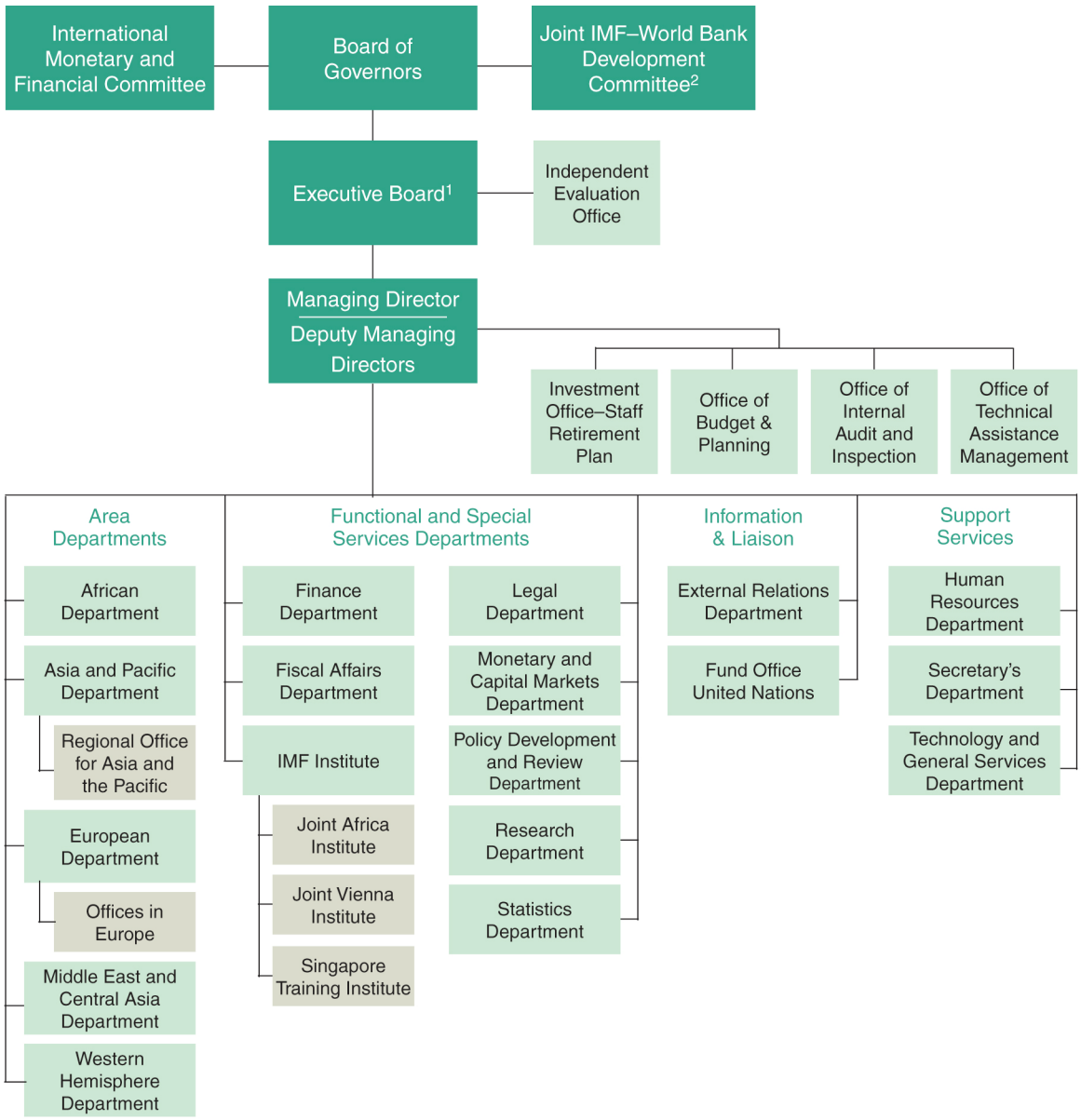
Functional and Special Services Departments

The nine functional and special services departments are primarily responsible for the IMF's work in the areas of policy design and development, strengthening the international monetary system, technical assistance, multilateral surveillance, and financial transactions with member countries. Their core functions are summarized below.

Policy Development and Review Department

- Oversees the design, implementation, and evaluation of the IMF's general policies related to surveillance and the use of IMF resources, strengthening the international monetary system, the role of the IMF in low-income countries, and IMF-World Bank collaboration, and works closely with other departments to this end.
- Through the internal review of country work—that is, by providing comments on briefing papers for management approval or staff reports for Board approval—aims at ensuring an even-handed application of IMF policies and practices across the entire membership and staff recommendations that conform to established policies and practices.
- Advises management and prepares Board papers in the development and review of IMF policies and facilities, including on surveillance and Article IV consultation policies and procedures, on aspects of the architecture of the international monetary system, on policies for the use of IMF financial resources, and on issues related to balance of payments need, financing assurances, and external viability and capacity to repay the IMF.
- Contributes to the wider dissemination of the IMF's analyses, policies and views, and to efforts aimed at greater openness and transparency by the IMF.
- Plays a central role in the IMF's dealings with the IMFC and the Development Committee, and serves as the focal point for general collaboration with the World Bank, United Nations, other international organizations, bilateral aid agencies, and regional country groupings such as the G-10 and G-24.

Figure 10.1. IMF Organization Chart
as of December 2006



[1]The Managing Director is the Chairman of the Board.
[2]Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

Fiscal Affairs Department

- Contributes to fiscal sector surveillance and fiscal policy design in member countries, and reviews the fiscal content of IMF policy advice and IMF-supported adjustment programs.
- Undertakes the IMF's work on fiscal transparency—including the preparation of ROSCs and development of the Code of Good Practices on Fiscal Transparency and the Manual on Fiscal Transparency—and on social sector issues, public expenditure policy issues, and the environment.
- Fosters work within the IMF on the integration of poverty and social impact analyses of macroeconomic and structural policies into the design of PRGF-supported programs.
- Provides technical assistance to member countries on public finance issues.

Monetary and Capital Markets Department

- Provides technical assistance to member countries on monetary, financial sector, exchange rate, and capital markets issues.
- Conducts financial sector surveillance in close collaboration with area departments, including: assessment of financial sector soundness and stability through the Financial Sector Assessment Program (FSAP), assessment of anti-money laundering and anti-terrorism financing regimes, offshore financial center assessments, and other financial-sector-related work in collaboration with the World Bank and other international agencies.
- Assists in the development of internationally-recognized standards and codes in the financial sector, assesses their observance by member countries, and promotes the dissemination of good policies and best practices.
- Oversees, in collaboration with the Legal Department, members' foreign exchange arrangements and restrictions on external current payments and transfers; assists in developing international best practices in the areas of exchange arrangements, currency convertibility on both the current and capital accounts, and exchange market development and operations; and compiles and disseminates information on members' exchange arrangements.
- Monitors developments and trends in international capital markets, assesses systemic risks and policy issues arising from such developments and trends, and develops analytical and operational approaches to dealing with systemic issues in international capital markets (including capital account liberalization).
- Publishes the daily Global Market Monitor and the semi-annual Global Financial Stability Report.
- Serves as the IMF's main point of contact with the official and private sector on issues relating to international capital markets, and oversees the development and implementation of the IMF's policies on private sector involvement in the resolution of financial crises.
- Supports multilateral surveillance by contributing to the preparation of the WEO, WEMD, and surveillance notes for regional groupings such as the G-7 and G-20, and advises area departments and member countries on all aspects of access to international capital markets and relations with creditors.

Statistics Department

- Develops internationally accepted methodologies and manuals for compiling macroeconomic statistics, including financial soundness indicators.
- Develops and maintains standards for the dissemination of data by member countries, including the GDDS and SDDS.
- Provides technical assistance and training to help member countries improve the production and dissemination of economic and financial statistics (see Chapter 6).
- Maintains databases of country, regional, and global economic statistics; and disseminates such statistics through the IMF's

global statistical publications: *International Financial Statistics, Government Finance Statistics Yearbook, Balance of Payments Statistics Yearbook,* and *Direction of Trade Statistics*.

Research Department

- Plays the central role in the IMF's multilateral surveillance work mainly not related to financial market developments, and assists in a broad range of bilateral surveillance activities, including monitoring exchange rates, commodity and energy markets.
- Prepares the World Economic Outlook (WEO) report for meetings of the IMFC, periodic reports on World Economic and Market Developments (WEMD) for the Executive Board, surveillance notes for regional groupings such as the G-7 and G-20, and multilateral assessments of exchange rates for key advanced and emerging market economies.
- Develops and maintains: early warning indicators of potential financial crises, macroeconomic models for use in analyzing issues in multilateral and bilateral surveillance, and the IMF's database on commodity prices and emerging market economies.
- Prepares policy papers for the Executive Board on the international monetary system, exchange rate issues, and other key issues raised by the Executive Board, the IMFC, and IMF management, or suggested by the Department's ongoing research.

Finance Department

- Mobilizes financial resources in the context of reviews of IMF quotas, IMF borrowing arrangements, and resources devoted for concessional support; advises management and the Executive Board on the IMF's liquidity and income positions; invests the Fund's assets held in trust; and monitors and assesses the financial position in the trust funds, implements the IMF's trustee functions and investment strategy for the trust funds.
- Develops policies and advises on the financial aspects of access to IMF resources and the design of IMF facilities, assesses financial risks to the IMF of large lending arrangements, and maintains the IMF's accounts in accordance with international accounting standards.
- Undertakes safeguards assessments of central banks of member countries making use of IMF resources to ensure that adequate control, reporting, and auditing systems are in place.
- Conducts all financial transactions with member countries; provides comprehensive financial information on the IMF's website; and develops and implements policies to address arrears.
- Undertakes comptroller responsibilities for and administers all payments and receipts under the administrative and capital budgets and under externally provided technical assistance agreements.

Legal Department

- Advises the Executive Board, management, and the staff on the applicable rules of law, and serves as legal counsel to the IMF in litigation and arbitration cases.
- Prepares most of the decisions and other legal instruments necessary for the IMF's activities.
- Arrives at legal findings regarding IMF jurisdiction on exchange measures and restrictions, assesses the consistency of laws and regulations with selected international standards and codes, and responds to inquiries from national authorities and international organizations on the laws of the IMF.
- Provides technical assistance to member countries on legislative reform.

IMF Institute

- Provides training in macroeconomic policy design and implementation for government officials of member countries.

- Conducts an internal economics training program for IMF economists on policy issues of relevance to the IMF's work.

The External Relations Department and Liaison Offices

External Relations Department

- Promotes public understanding of, and support for, the work of the IMF through press and public contacts and dissemination of information about the IMF.
- Advises management on the core messages on which external communications should focus, and how to deliver those messages effectively and efficiently.
- Maintains the IMF's external website and publishes the *IMF Survey*, *Finance and Development*, and the *Annual Report of the IMF*.

Offices in Europe

The three Offices in Europe—Office in Brussels, Office in Geneva, and Office in Paris—are managed by a single administrative entity, the Offices in Europe. The offices:

- Contribute to the IMF's bilateral, regional, and multilateral surveillance work by enhancing the monitoring of regional developments and the activities of regional governments and organizations.
- Contribute to policy development and liaison with regional and international bodies that provide policy advice and set rules having a bearing on the international economic and financial system (OECD, WTO, BIS, European Union institutions, other European-based agencies).
- Contribute to representation, communication, and outreach to explain IMF activities to various audiences, and to keep the IMF informed about the views of others regarding IMF policies.
- Support recruitment and a broad range of other activities by other departments and offices.

Regional Office for Asia and the Pacific

- Assists headquarters in monitoring and assessing economic and financial developments in the region as well as the progress in regional cooperation and integration.
- Facilitates the implementation of IMF policies and initiatives in the region, and helps enhance the understanding of the IMF and its policies.
- Promotes capacity building in the governments of Asia and the Pacific, through the organization of seminars and the administration of the Japan-IMF and Australia-IMF scholarship programs.

Office at the United Nations in New York

- Participates in inter-governmental activities in the IMF's capacity as permanent observer at the United Nations—follows the regular session of the General Assembly in September-December and annual session of the Economic and Social Council (ECOSOC) in June/July, and participates in the special high-level meeting between ECOSOC, the Bretton Woods Institutions, and the World Trade Organization in March/April.
- Interacts with the secretariats of all UN organizations, through inter-agency coordination mechanisms and bilateral contacts.
- Undertakes outreach activities through briefings for UN delegates, students, and non-government organizations.

Support Departments

Secretary's Department

- Provides secretariat support for the IMF's governing and advisory bodies—the Board of Governors, the Executive Board, the IMFC, and the Development Committee (jointly with the World Bank)—and makes the administrative arrangements (jointly with the World Bank) for the meetings of the Boards of Governors, the IMFC, and the Development Committee.

- Manages the day-to-day work program of the Executive Board, liaises between management and staff and the Executive Board, oversees the summings up of Executive Board discussions, maintains the official records of the IMF's governing bodies, and prepares the minutes of Executive Board meetings.

- Helps prepare the communiqués of the IMFC, the G-24, or the Development Committee.

- Has central responsibility for communications with the IMF's governing bodies, printing and distribution of official documents, information security, membership matters, and administrative matters for the offices of Executive Directors.

Technology and General Services Department

- The Technology and General Services Department provides services in three areas.

- Administrative services: building projects, facilities management, libraries, archives and records management, procurement, transportation, field and headquarters security, information security, and executive protective services.

- Information technology services: information systems, technology infrastructure, multimedia services, and document management.

- Language services (i.e., translation and interpretation).

Human Resources Department

The Human Resources Department manages the human resources of the IMF in partnership with other departments, overseeing policy development and implementation with respect to recruitment, compensation and benefits, and staff development.

Financing of IMF Operations

The IMF relies primarily on the income from its lending operations to meet its operational costs. This financing model has generated adequate income in the past. However, in recent years, the substantial decline in countries experiencing balance of payments problems has led to a reduction in IMF lending activities and income (Tables 10.1).

The decline in IMF lending is a positive development, reflecting the strength of the global economy and the IMF's success in assisting its members to resolve and prevent balance of payments difficulties through the promotion of sound macroeconomic policies. The IMF's balance sheet is strong and the current level of precautionary reserves could absorb administrative deficits for a number of years. However, the declining net interest revenue stream does require the IMF to find the means to close the gap between its income and its running costs and, more fundamentally, to review its structure and sources of revenue and find a financing model that more appropriately reflects the IMF's role in a changing global economy, compared to the present financing model that relies primarily on income generated by lending activities.

As noted in the Managing Director's Review of the IMF's Medium Term Strategy (MTS), the IMF must secure a predictable and stable source of income to finance its central role in the global financial system, including its surveillance activities and provision of technical assistance. However, the IMF is restricted in its financing activities by the Articles of Agreement, which limit the use of its quota resources to balance of payments adjustment credit and limit the use of its substantial gold holdings. The IMF is currently pursuing a range of options to address this challenge:

- As a first step, in May 2006 the Executive Board approved the establishment of an investment account to generate additional income, which was funded by the IMF's reserves of US$8.7 billion at the time. A similar structure was maintained between 1956 and 1972, initially to meet a temporary income deficit, and subsequently to build up a special reserve. The Executive Board also decided to suspend the accumulation of additional precautionary balances, to use the IMF's existing reserves to meet any income shortfall, and to continue a tight budgetary stance.

- The second and more critical long-term aspect of the strategy is to ensure a lasting and sustainable solution to the IMF's income needs. For this purpose, the Managing Director has appointed an external Committee of Eminent Persons to advise on a lasting solution to the issue of the financing of the IMF's running costs in the future.

Table 10.1. General Department, Operational Income

(In thousands of SDRs)

	Fiscal year ended April 30				
	2002	2003	2004	2005	2006
Net operational income	**492,449**	**707,915**	**864,726**	**665,507**	**280,136**
Operational income	**2,364,204**	**2,516,348**	**2,379,922**	**2,372,558**	**1,801,100**
Interest and charges	2,032,921	2,295,250	2,231,678	2,270,044	1,671,502
Interest on SDR holdings	41,284	28,038	16,630	16,322	58,330
Income of the Special Disbursement Account	132,503	61,431	40,938	52,157	48,710
Investment income	131,372	61,431	40,938	52,157	44,770
Interest on Structural Adjustment Facility Loans	1,131	0	0	0	0
MDRI-I Trust [1/]	0	0	0	0	3,940
Other charges and income	157,496	131,629	90,676	34,035	22,558
Operational expenses	**1,871,755**	**1,808,433**	**1,515,196**	**1,707,051**	**1,520,964**
Remuneration	1,246,961	1,201,347	966,404	1,033,847	828,298
Allocation to the Special Contingent Account [2/]	94,000	0	0	0	0
Administrative expenses	530,794	607,086	548,792	673,204	692,666
Net operational income of the General Department comprises	**492,449**	**707,915**	**864,726**	**665,507**	**280,136**
Income of the General Resources Account	359,946	646,484	823,788	613,350	235,524
Income of the Special Disbursement Account	132,503	61,431	40,938	52,157	44,612

Source: Finance Department

1/ For the year ended April 30, 2006, MDRI-I Trust was consolidated with the Special Disbursement Account and consolidated financial statements were presented.
2/ Beginning in FY 2003, the adjustments to charges and remuneration for the allocation to the Special Contingency Account are reflected as a liability in the balance sheet.

APPENDIX

Appendix 1. Quotas and Voting Power

As of January 18, 2007

Countries	Quotas (Millions of SDRs)	Percent of Fund Total[1]	Number of Votes[4]	Percent of Fund Total[5]
Afghanistan, Islamic Republic of	161.9	0.07	1869	0.08
Albania	48.7	0.02	737	0.03
Algeria	1,254.7	0.58	12,797	0.58
Angola	286.3	0.13	3,113	0.14
Antigua and Barbuda	13.5	0.01	385	0.02
Argentina	2,117.1	0.98	21,421	0.97
Armenia	92.0	0.04	1,170	0.05
Australia	3,236.4	1.49	32,614	1.48
Austria	1,872.3	0.86	18,973	0.86
Azerbaijan	160.9	0.07	1,859	0.08
Bahamas, The	130.3	0.06	1,553	0.07
Bahrain	135.0	0.06	1,600	0.07
Bangladesh	533.3	0.25	5,583	0.25
Barbados	67.5	0.03	925	0.04
Belarus	386.4	0.18	4,114	0.19
Belgium	4,605.2	2.12	46,302	2.10
Belize	18.8	0.01	438	0.02
Benin	61.9	0.03	869	0.04
Bhutan	6.3	0.00	313	0.01
Bolivia	171.5	0.08	1,965	0.09
Bosnia and Herzegovina	169.1	0.08	1,941	0.09
Botswana	63.0	0.03	880	0.04
Brazil	3,036.1	1.40	30,611	1.39
Brunei Darussalam	215.2	0.10	2,402	0.11
Bulgaria	640.2	0.30	6,652	0.30
Burkina Faso	60.2	0.03	852	0.04
Burundi	77.0	0.04	1,020	0.05
Cambodia	87.5	0.04	1,125	0.05
Cameroon	185.7	0.09	2,107	0.10
Canada	6,369.2	2.94	63,942	2.89
Cape Verde	9.6	0.00	346	0.02
Central African Republic	55.7	0.03	807	0.04
Chad	56.0	0.03	810	0.04
Chile	856.1	0.39	8,811	0.40
China	8,090.1	3.73	81,151	3.67
Colombia	774.0	0.36	7,990	0.36
Comoros	8.9	0.00	339	0.02
Congo, Democratic Republic of	533.0	0.25	5,580	0.25
Congo, Republic of	84.6	0.04	1,096	0.05
Costa Rica	164.1	0.08	1,891	0.09

Countries	Quotas (Millions of SDRs)	Percent of Fund Total[1]	Number of Votes[4]	Percent of Fund Total[5]
Côte d'Ivoire	325.2	0.15	3,502	0.16
Croatia	365.1	0.17	3,901	0.18
Cyprus	139.6	0.06	1,646	0.07
Czech Republic	819.3	0.38	8,443	0.38
Denmark	1,642.8	0.76	16,678	0.76
Djibouti	15.9	0.01	409	0.02
Dominica	8.2	0.00	332	0.02
Dominican Republic	218.9	0.10	2,439	0.11
Ecuador	302.3	0.14	3,273	0.15
Egypt	943.7	0.44	9,687	0.44
El Salvador	171.3	0.08	1,963	0.09
Equatorial Guinea	32.6	0.02	576	0.03
Eritrea	15.9	0.01	409	0.02
Estonia	65.2	0.03	902	0.04
Ethiopia	133.7	0.06	1,587	0.07
Fiji	70.3	0.03	953	0.04
Finland	1,263.8	0.58	12,888	0.58
France	10,738.5	4.95	107,635	4.87
Gabon	154.3	0.07	1,793	0.08
Gambia, The	31.1	0.01	561	0.03
Georgia	150.3	0.07	1,753	0.08
Germany	13,008.2	6.00	130,332	5.90
Ghana	369.0	0.17	3,940	0.18
Greece	823.0	0.38	8,480	0.38
Grenada	11.7	0.01	367	0.02
Guatemala	210.2	0.10	2,352	0.11
Guinea	107.1	0.05	1,321	0.06
Guinea-Bissau	14.2	0.01	392	0.02
Guyana	90.9	0.04	1,159	0.05
Haiti	81.9	0.04	1,069	0.05
Honduras	129.5	0.06	1,545	0.07
Hungary	1,038.4	0.48	10,634	0.48
Iceland	117.6	0.05	1,426	0.06
India	4,158.2	1.92	41,832	1.89
Indonesia	2,079.3	0.96	21,043	0.95
Iran, Islamic Republic of	1,497.2	0.69	15,222	0.69
Iraq	1,188.4	0.55	12,134	0.55
Ireland	838.4	0.39	8,634	0.39
Israel	928.2	0.43	9,532	0.43
Italy	7,055.5	3.26	70,805	3.21
Jamaica	273.5	0.13	2,985	0.14
Japan	13,312.8	6.14	133,378	6.04
Jordan	170.5	0.08	1,955	0.09

Countries	Quotas (Millions of SDRs)	Percent of Fund Total[1]	Number of Votes[4]	Percent of Fund Total[5]
Kazakhstan	365.7	0.17	3,907	0.18
Kenya	271.4	0.13	2,964	0.13
Kiribati	5.6	0.00	306	0.01
Korea	2,927.3	1.35	29,523	1.34
Kuwait	1,381.1	0.64	14,061	0.64
Kyrgyz Republic	88.8	0.04	1,138	0.05
Lao People's Democratic Republic	52.9	0.02	779	0.04
Latvia	126.8	0.06	1,518	0.07
Lebanon	203.0	0.09	2,280	0.10
Lesotho	34.9	0.02	599	0.03
Liberia[2]	71.3	0.03	-	0.00
Libyan Arab Jamahiriya	1,123.7	0.52	11,487	0.52
Lithuania	144.2	0.07	1,692	0.08
Luxembourg	279.1	0.13	3,041	0.14
Macedonia, former Yugoslav Republic of	68.9	0.03	939	0.04
Madagascar	122.2	0.06	1,472	0.07
Malawi	69.4	0.03	944	0.04
Malaysia	1,486.6	0.69	15,116	0.68
Maldives	8.2	0.00	332	0.02
Mali	93.3	0.04	1,183	0.05
Malta	102.0	0.05	1,270	0.06
Marshall Islands	3.5	0.00	285	0.01
Mauritania	64.4	0.03	894	0.04
Mauritius	101.6	0.05	1,266	0.06
Mexico	2,585.8	1.19	26,108	1.18
Micronesia, Federated States of	5.1	0.00	301	0.01
Moldova	123.2	0.06	1,482	0.07
Mongolia	51.1	0.02	761	0.03
Montenegro	27.5	0.01	525	0.02
Morocco	588.2	0.27	6,132	0.28
Mozambique	113.6	0.05	1,386	0.06
Myanmar	258.4	0.12	2,834	0.13
Namibia	136.5	0.06	1,615	0.07
Nepal	71.3	0.03	963	0.04
Netherlands	5,162.4	2.38	51,874	2.35
New Zealand	894.6	0.41	9,196	0.42
Nicaragua	130.0	0.06	1,550	0.07
Niger	65.8	0.03	908	0.04
Nigeria	1,753.2	0.81	17,782	0.80
Norway	1,671.7	0.77	16,967	0.77
Oman	194.0	0.09	2,190	0.10
Pakistan	1,033.7	0.48	10,587	0.48
Palau	3.1	0.00	281	0.01
Panama	206.6	0.10	2,316	0.10
Papua New Guinea	131.6	0.06	1,566	0.07
Paraguay	99.9	0.05	1,249	0.06
Peru	638.4	0.29	6,634	0.30

Countries	Quotas (Millions of SDRs)	Percent of Fund Total[1]	Number of Votes[4]	Percent of Fund Total[5]
Philippines	879.9	0.41	9,049	0.41
Poland	1,369.0	0.63	13,940	0.63
Portugal	867.4	0.40	8,924	0.40
Qatar	263.8	0.12	2,888	0.13
Romania	1,030.2	0.48	10,552	0.48
Russia	5,945.4	2.74	59,704	2.70
Rwanda	80.1	0.04	1,051	0.05
Samoa	11.6	0.01	366	0.02
San Marino	17.0	0.01	420	0.02
São Tomé and Príncipe	7.4	0.00	324	0.01
Saudi Arabia	6,985.5	3.22	70,105	3.17
Senegal	161.8	0.07	1,868	0.08
Serbia, Republic of	467.7	0.22	4,927	0.22
Seychelles	8.8	0.00	338	0.02
Sierra Leone	103.7	0.05	1,287	0.06
Singapore	862.5	0.40	8,875	0.40
Slovak Republic	357.5	0.16	3,825	0.17
Slovenia	231.7	0.11	2,567	0.12
Solomon Islands	10.4	0.00	354	0.02
Somalia	44.2	0.02	692	0.03
South Africa	1,868.5	0.86	18,935	0.86
Spain	3,048.9	1.41	30,739	1.39
Sri Lanka	413.4	0.19	4,384	0.20
St. Kitts and Nevis	8.9	0.00	339	0.02
St. Lucia	15.3	0.01	403	0.02
St. Vincent and the Grenadines	8.3	0.00	333	0.02
Sudan	169.7	0.08	1,947	0.09
Suriname	92.1	0.04	1,171	0.05
Swaziland	50.7	0.02	757	0.03
Sweden	2,395.5	1.11	24,205	1.10
Switzerland	3,458.5	1.60	34,835	1.58
Syrian Arab Republic	293.6	0.14	3,186	0.14
Tajikistan	87.0	0.04	1,120	0.05
Tanzania	198.9	0.09	2,239	0.10
Thailand	1,081.9	0.50	11,069	0.50
Timor-Leste	8.2	0.00	332	0.02
Togo	73.4	0.03	984	0.04
Tonga	6.9	0.00	319	0.01
Trinidad and Tobago	335.6	0.15	3,606	0.16
Tunisia	286.5	0.13	3,115	0.14
Turkey	1,191.3	0.55	12,163	0.55
Turkmenistan	75.2	0.03	1,002	0.05
Uganda	180.5	0.08	2,055	0.09
Ukraine	1,372.0	0.63	13,970	0.63
United Arab Emirates	611.7	0.28	6,367	0.29
United Kingdom	10,738.5	4.95	107,635	4.87

Countries	Quotas (Millions of SDRs)	Percent of Fund Total[1]	Number of Votes[4]	Percent of Fund Total[5]
United States	37,149.3	17.14	371,743	16.83
Uruguay	306.5	0.14	3,315	0.15
Uzbekistan	275.6	0.13	3,006	0.14
Vanuatu	17.0	0.01	420	0.02
Venezuela, República Bolivariana de	2,659.1	1.23	26,841	1.22
Vietnam	329.1	0.15	3,541	0.16
Yemen, Republic of	243.5	0.11	2,685	0.12
Zambia	489.1	0.23	5,141	0.23
Zimbabwe[3]	353.4	0.16	-	0.00
TOTAL OF FUND QUOTAS AND VOTES [6]	**216,747.8**	**100.00**	**2,208,981**	**100.00**

Notes:

On September 18, 2006, the Board of Governors adopted Resolution No. 61-5 approving, among other things, an increase in the quotas of China, Korea, Mexico and Turkey, and establishing a thirty-day period after the date of the Resolution, ending on October 18, 2006, for these members to consent in writing to, and pay for, the increase. For Mexico, the period for consent and payment of the quota increases provided for under paragraph 1 of Board of Governors' Resolution No. 61-5, effective September 18, 2006, is extended until March 31, 2007 (Decision No. 13844-(06/107)). Depending on the outcome of this process, Mexico's quota and vote will remain as detailed in the table above or increased to SDR 3,152.8 million and 31,778 respectively.

[1] At the present time all 185 members are participants in the Special Drawing Rights Department.

[2] Liberia's voting rights were suspended effective March 5, 2003 pursuant to Article XXVI, Section 2(b) of the Articles of Agreement.

[3] Zimbabwe's voting rights were suspended effective June 6, 2003 pursuant to Article XXVI, Section 2(b) of the Articles of Agreement.

[4] Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department.

[5] Percentages of total votes, 2,208,981 in the General Department and the Special Drawing Rights Department.

[6] This figure may differ from the sum of the percentages shown for individual countries because of rounding.

ENDNOTES

[1] See James Boughton, Silent Revolution: The International Monetary Fund, 1979-89, IMF, Washington, D.C., 2001; International Monetary Fund, *Articles of Agreement of the International Monetary Fund*, IMF, Washington, D.C., 1993; Margaret Garritsen de Vries, Balance of Payments Adjustment, 1945 to 1986: The IMF Experience, IMF, Washington, D.C., 1987; Margaret Garritsen de Vries, The International Monetary Fund, 1972-78: Cooperation on Trial, IMF, Washington, D.C., 1985; Margaret Garritsen de Vries, The International Monetary Fund, 1966-71: The System Under Stress, IMF, Washington, D.C., 1976; J. Keith Horsefield, The International Monetary Fund, 1945-1965: Twenty Years of International Cooperation, IMF, Washington, D.C., 1969.

[2] The agreement between the IMF and the UN establishing such a relationship came into force on November 15, 1947.

[3] The Articles of Agreement were amended on July 28, 1969, on April 1, 1978, and on November 11, 1992. A fourth amendment is pending (see Chapter 9).

[4] Report on the External Evaluation of Fund Surveillance, June 30, 1999.

[5] See also The Acting Chair's Summing Up, Review of the 1977 Decision on Surveillance Over Exchange Rate Policies—Preliminary Considerations, Executive Board Meeting 06/66, July 19, 2006, available on the IMF's external website http://www.imf.org/external/np/pp/eng/2006/pc.pdf.

[6] A Factsheet – IMF Surveillance – The 2007 Decision on Bilateral Surveillance, available on the Internet at: http://www.imf.org/external/np/exr/facts/surv07.htm.

[7] A timeline of major events in the history of the IMF is available on the Internet at: http://www.imf.org/external/np/exr/chron/chron2.asp.

[8] These 29 countries were: Belgium, Bolivia, Brazil, Canada, China, Colombia, Costa Rica, Czechoslovakia, Ecuador, Egypt, Ethiopia, France, Greece, Guatemala, Honduras, Iceland, India, Iraq, Luxembourg, the Netherlands, Norway, Paraguay, the Phillipines, Poland, the Union of South Africa, the United Kingdom, the United States, Uruguay, and Yugoslavia. In addition, the Dominican Republic, Iran, Chile, Cuba, Mexico, and Peru signed before the end of the year, bringing to 35 the number of countries that ratified and signed the Articles of Agreement by December 31, 1945, the deadline set for the Articles of Agreement to come into force. The ten countries that did not sign the Agreement by December 31, 1945 were Australia, Denmark, El Salvador, Haiti, Liberia, New Zealand, Nicaragua, Panama, the Soviet Union, and Venezuela.

[9] Article XII, Section 4 (d) of the Articles of Agreement. Available on the Internet at: http://www.imf.org/external/pubs/ft/aa/index.htm.

[10] *Articles of Agreement of the International Monetary Fund*, available on the Internet at: http://www.imf.org/external/pubs/ft/aa/index.htm; "Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision—Overview", available on the Internet at: http://www.imf.org/external/np/pdr/surv/2004/082404.htm; "Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision: Framework and Conduct of Surveillance in 2000-01. March 14, 2002", available on the Internet at: http://www.imf.org/external/np/pdr/surv/2002/031402.pdf; "Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision, Overview. March 13, 2002," available on the Internet at: http://www.imf.org/external/np/pdr/surv/2002/031302.pdf; "Review of the 1977 Decision on Surveillance Over

Exchange Rate Policies Preliminary Considerations, Background Information, and Summing Up of the Board Meeting, July 19, 2006," available on the Internet at: http://www.imf.org/external/np/pp/eng/2006/pc.pdf; "Biennial Review of the Implementation of the IMF's Surveillance and of the 1977 Surveillance Decision," available on the Internet at: http://www.imf.org/external/np/pdr/surv/2002/index.htm.

[11] The list was expanded effective January 1, 2005 and will be reviewed no later than December 31, 2007. *Decision No. 13183-(04/10) January 30, 2004,* available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13183-(04/10).

[12] However, members can impose restrictions solely for the preservation of national or international security, for which IMF approval is not required, since the IMF is not a suitable forum for discussion of the political and military considerations that lead to restrictions. A member intending to impose restrictions solely for the preservation of national or international security is expected to inform the IMF before doing so, or, if this is not possible, within 30 days of doing so. The IMF will not object to restrictions that it is satisfied are imposed solely for security reasons. *Decision No. 144-(52/51), August 14, 1952,* available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=144-(52/51).

[13] The 1977 Decision on Surveillance over Exchange Rate Policies was reviewed in 2006 under "Review of the 1977 Decision on Surveillance Over Exchange Rate Policies Preliminary Considerations, Background Information, and Summing Up of the Board Meeting, July 19, 2006, " available on the Internet at: http://www.imf.org/external/np/pp/2007/eng/062107.htm.

[14] See, for example, "Managing Director's Report to the International Monetary and Financial Committee--Streamlining and Focusing Conditionality and Enhancing Ownership of Fund-Supported Programs, April 16, 2002," available on the Internet at: http://www.imf.org/external/np/omd/2002/041702.htm.

[15]The Chairman's Summing Up—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision, Executive Board Meeting 04/72, July 23, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0495.htm.

[16] Review of the 1977 Decision on Surveillance Over Exchange Rate Policies Preliminary Considerations, Background Information, and Summing Up of the Board Meeting, July 19, 2006, available on the Internet at: http://www.imf.org/external/np/pp/eng/2006/pc.pdf.

[17] The Acting Chair's Summing Up, The Fund's Transparency Policy—Issues and Next Steps, available on the Internet at: http://www.imf.org/external/np/sec/pn/2003/pn03122.htm; The Acting Chair's Summing Up, Review of the Fund's Transparency Policy, available on the Internet at: http://www.imf.org/external/np/sec/pn/2005/pn05116.htm.

[18] The Chairman's Summing Up, Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision, Executive Board Meeting 04/72, July 23, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0495.htm.

[19] The Chairman's Summing Up, Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision, Executive Board Meeting 04/72, July 23, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0495.htm.

[20] The 1977 surveillance decision states: "Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV." In this connection, see also *Surveillance Procedures—Implementation of Three-Month Period*, Decision No. 7427-(83/83), 6/8/83, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=7427-(83/83). The decisions on streamlining in November 2006 reduced the lag from three months to 65 days, except for PRGF-eligible members, where the lag is maintained at three months.

[21] Implementing the Fund's Medium-Term Strategy, available on the Internet at: http://www.imf.org/external/np/exr/ib/2006/041806.htm, The Managing Directors' Report on Implementing the

Fund's Medium-Term Strategy, available available on the Internet: http://www.imf.org/external/pp/longres.aspx?id=548 , and Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund, available on the Internet at: http://www.imf.org/external/np/sec/pr/2006/pr0681.htm.

[22] The typical schedule is: January – WEMD; March – WEO/WEMD; May/June – WEMD/Financial Markets Update; September – WEO/WEMD; November – WEMD/Financial Markets Update.

[23] Modalities for Surveillance over Euro-Area Policies in the Context of Article IV Consultations with Member Countries, Decision No. 12899-(02/119), 12/4/02, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12899-(02/119).

[24] Board Decisions No. 13654-(06/1), available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13654-(06/1), No. 13655-(06/1), available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13655-(06/1), No. 13656-(06/1), available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13656-(06/1).

[25] See, in addition to the documents for the 2000 biennial review of surveillance, Factsheet – Vulneralility Indicators, available on the Internet at: http://www.imf.org/external/np/exr/facts/vul.htm; A Balance Sheet Approach to Financial Crisis, IMF Working Paper WP/02/210, available on the Internet at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=16167.0; The Balance Sheet Approach and its Application at the Fund, on the Internet at: http://www.imf.org/external/np/pdr/bal/2003/eng/063003.htm; Integrating the Balance Sheet Approach into Fund Operations, available on the Internet at: http://www.imf.org/external/np/pdr/bal/2004/eng/022304.htm; Assessing Sustainability, available on the Internet at: http://www.imf.org/external/np/pdr/sus/2002/eng/052802.htm; Sustainability Assessments—Review of Application and Methodological Refinements, available on the Internet at: http://www.imf.org/external/np/pdr/sustain/2003/061003.pdf; The Acting Chair's Summing Up, Sustainability Assessments—Review of Application and Methodological Refinements, available on the Internet at: http://www.imf.org/external/np/sec/pn/2003/pn03111.htm; Debt Sustainability in Low-Income Countries—Towards a Forward-Looking Strategy, available on the Internet at: http://www.imf.org/external/np/pdr/sustain/2003/052303.htm; Debt-Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications, available on the Internet at: http://www.imf.org/external/np/pdr/sustain/2004/020304.pdf.

[26] Summing Up by the Acting Chair, Review of Data Provision to the Fund for Surveillance Purposes, Executive Board Meeting 04/25, March 15, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0437.htm.

[27] A Balance Sheet Approach to Financial Crisis, IMF Working Paper WP/02/210, available on the Internet at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=16167.0.

[28] The Acting Chair's Summing Up, Operational Framework for Debt Sustainability Assessments in Low-Income Countries-Further Considerations, Executive Board Meeting 05/34, April 11, 2005, available on the Internet at: http://www.imf.org/external/np/sec/pn/2005/pn0559.htm.

[29] See *Financial Sector Assessment: A Handbook*, Monetary and Capital Markets Department, September 29, 2005, available on the Internet at: http://www.imf.org/external/pubs/ft/fsa/eng/index.htm. *Financial Soundness Indicators*, available on the Internet at: http://www.imf.org/external/np/sta/fsi/eng/2003/051403.htm; *Financial Soundness Indicators—Background Paper,* available on the Internet at: http://www.imf.org/external/np/sta/fsi/eng/2003/051403b.htm; *Concluding Remarks by the Acting Chair, Financial Soundness Indicators*, available on the Internet at: http://www.imf.org/external/np/sec/pn/2003/pn0371.htm; V. Sundararajan *et al*, *Financial Soundness Indicators: Analytical Aspects and Country Practices*, IMF, Occasional Paper 212, 2002, available on the Internet at: http://www.imf.org/external/pubs/nft/op/212/index.htm.

[30] The Acting Chair's Summing Up—Financial Sector Assessment Program-Review, Lessons, and Issues Going Forward, Executive Board Meeting 05/26, March 18, 2005, available on the Internet at: http://www.imf.org/external/np/sec/pn/2005/pn0547.htm.

[31] See Joint Report on Review of the Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments, available on the Internet at: http://www.imf.org/external/np/aml/eng/2004/031004.htm; and The Acting Chair's Summing Up, Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments—Joint Report on the Review of the Pilot Program, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0433.htm.

[32] See "Offshore Financial Centers--The Assessment Program--A Progress Report and the Future of the Program," 7/31/03; available available on the Internet: http://www.imf.org/external/np/mae/oshore/2003/eng/073103.htm.

[33] Articles of Agreement of the International Monetary Fund, available on the Internet at: http://www.imf.org/external/pubs/ft/aa/index.htm; Review of Data Provision to the Fund for Surveillance Purposes, available on the Internet at: http://www.imf.org/external/np/pdr/surv/2004/022404.htm; Summing Up by the Acting Chair—Review of Data Provision to the Fund for Surveillance Purposes, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0437.htm; Strengthening the Effectiveness of Article VIII, Section 5—Decision No. 13183-(04/10), 1/30/04, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13183-(04/10); Strengthening the Effectiveness of Article VIII, Section 5, available on the Internet at: http://www.imf.org/external/np/a8/eng/2003/050203.htm.

[34] The Acting Chair's Summing Up Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality-Progress Report, Executive Board Meeting 04/26, March 17, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0436.htm; The Acting Chair's Summing Up, The Fund's Role in Low-Income Member Countries-Considerations on Instruments and Financing, Executive Board Meeting 04/32, March 31, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0440.htm; The Chairman's Summing Up, Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision, Executive Board Meeting 04/72, July 23, 2004, available on Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0495.htm; The Chairman's Summing Up, Crisis Prevention and Precautionary Arrangements-Status Report, Executive Board Meeting 04/90, September 24, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn04117.htm.

[35] General sources: Articles of Agreement of the International Monetary Fund, available on the Internet at: http://www.imf.org/external/pubs/ft/aa/index.htm; Financial Organization and Operations of the IMF, IMF Pamphlet Series No. 45, Sixth Edition, available on the Internet at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=15251.0. See also: General Arrangements to Borrow, Decision No. 1289-(62/1), 1/5/62, as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=1289-(62/1); General Arrangements to Borrow: Borrowing Agreement with Saudi Arabia, Decision No. 7403-(83/73), 5/20/83, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=7403-(83/73); New Arrangements to Borrow, Decision No. 11428-(97/6), 1/27/97, as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=11428-(97/6); Guidelines for Borrowing by the Fund, Decision No. 9862-(91/156), 11/15/91, available available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=9862-(91/156); Instrument to Establish the Poverty Reduction and Growth Facility Trust, Annex to Poverty Reduction and Growth Facility Trust, Decision No. 12087-(99/118) PRGF, 10/21/99, as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12087-(99/118); Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations, Annex to Decision No. 11436-(97/10), as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=11436-(97/10).

[36] Gold was sold at market price by the IMF to Brazil and Mexico, and then the immediate returned at the same price to the IMF by these countries in repayment of obligations falling due. The transactions left the IMF's holdings of gold unchanged, but with a net profit of SDR 2.226 billion.

[37] The one-year FCC is defined as the stock of usable resources plus projected repayments during the coming 12 months, less undrawn balances under existing arrangements, less a prudential balance intended to safeguard the liquidity of creditors' claims and to take account of any potential erosion of the IMF's resource base.

[38] See section on the reserve tranche position below.

[39] The terms "purchase" to draw down a loan and "repurchase" to repay a loan are used when financing is provided from GRA resources. When financing is provided from concessional resources, the terms "disbursement" and "repayment" are used.

[40] Public Information Notice (PIN) No. 06/94, 10/10/06, available on the Internet at: http://www.imf.org/external/np/sec/pn/2006/pn0694.htm.

[41] Under certain conditions, borrowing from the Compensatory Financing Facility does require an arrangement.

[42] Again, there are exceptions to this general rule in connection with borrowing from the first credit tranche and the Compensatory Financing Facility.

[43] Formally, the member has to make a representation to the IMF that it has a balance of payments need. As such a representation cannot be challenged by the IMF, access to the reserve tranche is de facto automatic.

[44] Criteria for the Amount of Access in Individual Cases, EBS/83/233, 10/31/83; The Chairman's Summing Up at the Conclusion of the Discussion on Criteria for the Amount of Access in Individual Cases, BUFF/83/279, 12/6/83; Summing Up by the Acting Chair, Access Policy in Capital Account Crises, available on the Internet at: http://www.imf.org/external/np/tre/access/2003/072902.htm ; The Acting Chair's Summing Up, Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy, available on the Internet at: http://www.imf.org/external/np/sec/pn/2003/pn0337.htm; Review of Exceptional Access Policy, available on the Internet at: http://www.imf.org/external/np/acc/2004/eng/032304.pdf ; Summing Up by the Acting Chair—Review of Exceptional Access Policy, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0454.htm.

[45] Decision No. 13462-(05/32), April 1, 2005, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13462-(05/32).

[46] http://www.imf.org/external/np/tre/access/2003/072902.htm.

[47] Decision No. 13462-(05/32), April 1, 2005, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13462-(05/32).

[48] *Early Repurchases*, Decision No. 5704-(78/39), 2/22/78; *Guidelines for Early Repurchase*, Decision No. 6172-(79/101), 6/2/79, as amended by Decision No. 12425-(01/14), 2/9/01, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=6172-(79/101).

[49] Article V, Section 7 (b), available on the Internet at: http://www.imf.org/external/pubs/ft/aa/index.htm.

[50] Guidelines on Conditionality, Decision No. 12864-(02/102), 9/25/02, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12864-(02/102); Concluding Remarks by the Chairman, The Modalities of Conditionality—Further Considerations, BUFF/02/13, 2/1/02; Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements—Operational Guidelines, Decision No. 7925-(85/38), 3/8/85, as amended by Decision No. 8887-(88/89), 6/6/88, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=7925-(85/38). See also http://www.imf.org/external/np/exr/facts/conditio.htm.

[51] Summing Up by the Chairman, Operational Modalities of the Rights Approach, Executive Board Meeting 90/97, 6/20/90, BUFF/90/130, 6/22/90; Statement by the Managing Director on the Strengthened Cooperative Strategy on Overdue Financial Obligations to the Fund, Executive Board Meeting 90/37, 3/16/90, BUFF/90/58, 3/15/90.

[52] Arrears to Creditors and Debt Strategy, Decision No. 3153-(70/95), 10/26/70, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=3153-(70/95); Review of Fund Policies and Procedures on Payments Arrears, EBS/80/190, 8/27/80; Summing Up by the Chairman—Management of the Debt Situation, Executive Board Meeting 91/48, 4/3/91, BUFF/91/65, 4/5/91. The Acting Chairman's Summing Up on Fund Policy on Arrears to Private Creditors—Further Considerations, Executive Board Meeting 99/64, 6/14/99, BUFF/99/71, 6/18/99. The Acting Chair's Summing Up, Fund Policy on Lending Into Arrears to Private Creditors—Further Consideration of the Good Faith Criterion, Executive Board Meeting 02/92, 9/4/02, available on the Internet at: http://www.imf.org/external/np/sec/pn/2002/pn02107.htm.

[53] Conclusions of the Task Force on the Prolonged Use of Fund Resources, available on the Internet at: http://www.imf.org/external/np/pdr/ufr/2003/020403.pdf; The Acting Chair's Summing Up—Conclusions of the Task Force on Prolonged Use of Fund Resources, available on the Internet at: http://www.imf.org/external/np/sec/pn/2003/pn0349.htm; Guidance Note on Prolonged Use of Fund Resources, avaliable available on the Internet at: http://www.imf.org/external/np/pdr/ufr/2003/082003.htm.

[54] Review of Ex Post Assessments and Issues Relating to the Policy on Longer-Term Program Engagement, available on the Internet at: http://www.imf.org/external/np/pp/eng/2006/032006r.pdf.

[55] *Misreporting and Noncomplying Disbursements in Arrangements Under the Poverty Reduction and Growth Facility—Provisions on Corrective Action*, Appendix I of *Poverty Reduction and Growth Facility Trust*, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=8759-(87/176) ; Decision No. 12087-(99/118) PRGF, 10/21/99, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12087-(99/118); The Acting Chair's Concluding Remarks—Strengthening the Effectiveness of Article VIII, Section, available on the Internet at: http://www.imf.org/external/np/a8/eng/2003/050203.htm.

[56] The Acting Chair's Summing Up, Making the Misreporting Policies Less Onerous in De Minimis Cases, July 26, 2006, available on the Internet at: http://www.imf.org/external/np/sec/pn/2006/pn0695.htm.

[57] Safeguards Assessment—Review of Experience and Next Steps, available on the Internet at: http://www.imf.org/external/np/tre/safegrds/2002/review.pdf; The Acting Chair's Summing Up, Safeguards Assessment—Review of Experience and Next Steps, available on the Internet at: http://www.imf.org/external/np/sec/pr/2002/pr0219.htm. Summing Up by the Acting Chairman, Strengthening Safeguards on the Use of Fund Resources and Misreporting on Information to the Fund, March 23, 2000, available on the Internet at: http://www.imf.org/external/np/sec/pn/2000/pn0028.htm.

[58] However, in the case of the CFF, the policy applies if the member is using the CFF in conjunction with an IMF arrangement.

[59] Review of Fund Facilities—Preliminary Considerations, available on the Internet at: http://www.imf.org/external/np/pdr/fac/2000/faciliti.pdf; Review of Fund Facilities—Further Considerations, available on the Internet at: http://www.imf.org/external/np/pdr/roff/2000/eng/fc/index.htm; Review of Fund Facilities—Follow Up, available on the Internet at: http://www.imf.org/external/np/pdr/roff/2000/eng/fu/index.htm; Summing Up by the Acting Chairman, Review of Fund Facilities—Proposed Decisions and Implementation Guidelines, BUFF/00/175, 11/27/00; Summing Up by the Acting Chairman, Review of Fund Facilities—Supplementary Information, BUFF/00/153, 9/18/00; Summing Up by the Acting Chairman, Review of Fund Facilities—Follow Up, BUFF/00/145, 9/8/00; Summing Up by the Acting Chairman, Review of Fund Facilities—Preliminary Considerations, BUFF/00/41, 3/24/00.

[60] In December 2005, when the Exogenous Shocks Facility was established, the PRGF Trust and PRGF-HIPC Trusts were re-named the PRGF-ESF Trust and the PRGF-ESF-HIPC Trust, respectively.

[61] See *Financial Organization and Operations of the IMF*, Box II.5.

[62] Guidelines on Conditionality—Stand-By Arrangements, Decision No. 12865-(02/102), 9/25/02, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12865-(02/102).

[63] *Annual Report of the Executive Directors*, 1963, page 16. (Cited in Selected Decisions and Selected Documents of the International Monetary Fund, 29th issue, June 30, 2005.)

[64] *Extended Fund Facility*, Decision No. 4377-(74/114), 9/13/74, as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=4377-(74/114).

[65] Supplemental Reserve Facility and Contingent Credit Lines, Decision No. 11627-(97/123), 12/17/97, as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=11627-(97/123).

[66] Access Policy in Capital Account Crises, Modifications to the Supplemental Reserve Facility (SRF) and Follow-up Issues Related to Exceptional Access Policy, available on the Internet at: http://www.imf.org/external/np/tre/access/2003/pdf/011403.pdf.

[67] *Compensatory Financing Facility*, Decision No. 8955-(88/126), 8/23/88, as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=8955-(88/126).

[68] Fund Policies with Regard to Emergency Assistance Related to Natural Disasters, SM/82/7, 1/8/82; An Emergency Financing Mechanism, SM/95/216, 8/22/95; Summing Up by the Chairman, Fund Involvement in Post-Conflict Countries, BUFF/95/98, 9/19/95; Fund Assistance to Post-Conflict Countries, EBS/99/46, 3/19/99; Summing Up by the Acting Chairman, Fund Assistance to Post-Conflict Countries, BUFF/99/48, 4/9/99; Conversion of Emergency Assistance into a Special Policy, Decision No. 12341-(00/117), 11/28/00, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12341-(00/117); The Acting Chair's Summing Up HIPC Initiative-Status of Implementation; and Update of PRGF and HIPC Operations and Subsidization of Post-Conflict Emergency Assistance, Executive Board Meeting 02/94, September 6, 2002, available on the Internet at: http://www.imf.org/external/np/sec/pn/2002/pn02112.htm; The Acting Chair's Summing Up, The Fund's Role in Low-Income Member Countries-Considerations on Instruments and Financing, Executive Board Meeting 04/32, March 31, 2004, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0440.htm.

[69] The Fund's Support of Low-Income Member Countries—Considerations on Instruments and Financing, SM/04/53, 2/24/04, available on the Internet at: http://www.imf.org/external/np/pdr/lic/2004/eng/022404.htm; The Acting Chair's Summing Up, The Fund's Role in Low-Income Member Countries—Considerations on Instruments and Financing, available on the Internet at: http://www.imf.org/external/np/sec/pn/2004/pn0440.htm; Poverty Reduction and Growth Facility Trust, Decision No. 12087-(99/118) PRGF, 10/21/99, as amended, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12087-(99/118).

[70] Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries, August 20, 2006, available on the Internet at: http://www.imf.org/external/np/pp/eng/2006/083006a.pdf.

[71] Decision No. 13463-(05/32), April 1, 2005, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13463-(05/32).

[72] The Acting Chair's Summing Up: Multilateral Debt Relief and Exogenous Shocks Facility—Proposed Decisions, available on the Internet at: http://www.imf.org/external/np/pp/eng/2005/111605.pdf; The Chairman's Summing Up—Establishment of an Exogenous Shocks Facility Under the Poverty Reduction and Growth Facility Trust, available on the Internet at: http://www.imf.org/external/np/sec/pn/2005/pn05163.htm; Establishment of an Exogenous Shocks Facility Under the Poverty Reduction and Growth Facility Trust, available on the Internet at: http://www.imf.org/external/np/pp/eng/2005/100405.pdf.

[73] Fund Support for Trade-Related Balance of Payments Adjustments, available on the Internet at: http://www.imf.org/external/np/pdr/tim/2004/eng/022704.htm; The Acting Chair's Summing Up, Fund Support for Trade-Related Balance of Payments Adjustments, BUFF/04/72, 4/9/04.

[74] Decision No. 13229-(04/33), April 2, 2004, available on the Internet at: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13229-(04/33).

[75] SM/92/234; Summing Up by the Chairman Biennial Review of the Fund's Surveillance Policy, Executive Board Meeting 93/15, January 29, 1993 (SUR/93/15); The Chairman's Summing Up of the Discussion of the Role of the Fund in Assisting Members with Commercial Banks and Official Creditors, Executive Board Meeting 85/132, 9/4/85 (BUFF/85/152).

[76] Summing Up by the Chairman, Operational Modalities of the Rights Approach, EBM/90/97, 6/20/90, (BUFF/90/130); Statement by the Managing Director on the Strengthened Cooperative Strategy on Overdue Financial Obligations to the Fund, Executive Board Meeting 90/37, 3/16/90 (BUFF/90/58).

[77] The Acting Chairman's Summing Up, Overdue Financial Obligations-De-escalation of Remedial Measures under the Strengthened Cooperative Strategy-Further Considerations, Executive Board Meeting 99/79, July 22, 1999 (BUFF/99/90). See also the section on overdue obligations to the IMF in Chapter 3.

[78] Review of Fund Facilities, available on the Internet at: http://www.imf.org/external/np/pdr/fac/2000/02/index.htm.

[79] Guidance Note on the Implementation of Post-Program Monitoring, Annex III, available on the Internet at: http://www.imf.org/external/np/pdr/fac/2000/02/index.htm.

[80] Article XV, Section 1 of the Articles of Agreement, available on the Internet at: http://www.imf.org/external/pubs/ft/aa/index.htm. See also Article XVIII, Section 1 (a) of the Articles of Agreement; *Financial Organization and Operations of the IMF*, IMF Pamphlet Series No. 45, Sixth Edition, available on the Internet at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=15251.0; *SDR Allocations—The Concept of Long-Term Global Need to Supplement Existing Reserve Assets and the Objective of Making the SDR the Principal Reserve Asset*, SM/93/146, 7/6/93; *The Future of the SDR as a Reserve Asset*, EBS/93/89, 6/15/93.

[81] The African Development Bank, African Development Fund, Andean Reserve Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States, Eastern Caribbean Central Bank, European Central Bank, International Bank for Reconstruction and Development and International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Latin American Reserve Fund, and Nordic Investment Bank.

[82] Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund, September 17, 2006, available on the Internet at: http://www.imf.org/external/np/cm/2006/091706.htm.

[83] *Review of Rules for Designation and Method of Calculating Designation Amounts*, Decision No. 6209-(79/124) S, 7/24/79; *Rules for Designation—Revision*, Decision No. 11976-(99/59) S, 6/3/99.

[84] Twelve of these arrangements are currently active.

[85] A "transaction" refers to the exchange of SDRs for another monetary asset; an "operation" refers to other uses of SDRs.

[86] *Use of SDRs in Settlement of Financial Transactions*, Decision No. 6000-(79/1) S, 12/28/78, as amended by Decision No. 6438-(80/37) S, 3/5/80; *Use of SDRs in Loans*, Decision No. 6001-(79/1) S, 12/28/78; *Use of SDRs in Pledges*, Decision No. 6053-79/34) S, 2/26/79, as amended by Decision No. 6438-(80/37) S, 3/5/80; *Use of SDRs in Transfers as Security for the Performance of Financial Obligations*, Decision No. 6054-(79/34)

S, 2/26/79, as amended by Decision No. 6438-(80/37) S, 3/5/80; *Use of SDRs in Swap Operations*, Decision No. 6336-(79/178) S, 11/28/79; *Use of SDRs in Forward Operations*, Decision No. 6337-(79/178) S, 11/28/79; and *Use of SDRs in Donations*, Decision No. 6437-(80/37) S, 3/5/80.

[87] *SDR Valuation Basket—Revised Guidelines for Calculation of Currency Amounts*, Decision No. 12281-(00/98), 10/11/00; *SDR Valuation Basket—Guidelines for the Calculation of Currency Amounts*, Decision No. 8160-(85/186) G/S, 12/23/85, as amended by Decision No. 12383-(00/98), 10/11/00; and *Method of Collecting Exchange Rates for the Calculation of the Value of the SDR for the Purposes of Rule O-2(a)*, Decision No. 6709-(80/189) S, 12/19/80 as amended by Decision No. 12157-(00/24) S, 3/9/00; *By-Laws, Rules and Regulations of the International Monetary Fund*, Sixtieth Issue, May 2006, available on the Internet at: http://www.imf.org/external/pubs/ft/bl/blcon.htm.

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[89] If the exchange rate for any currency cannot be obtained from the London exchange market, the midpoint noon rate on the New York market is used; if not available there, the midpoint of the euro reference rates of the European System of Central Banks communicated by the European Central Bank is used.

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the Enhanced HIPC Initiative, pamphlet prepared by the IMF and the World Bank, available on the Internet at: http://www.imf.org/external/pubs/ft/exrp/debt/eng/index.htm.

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[133] Van Houtven, Chapter V.

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[135] Rule C-3 of the By-Laws, Rules, and Regulations.