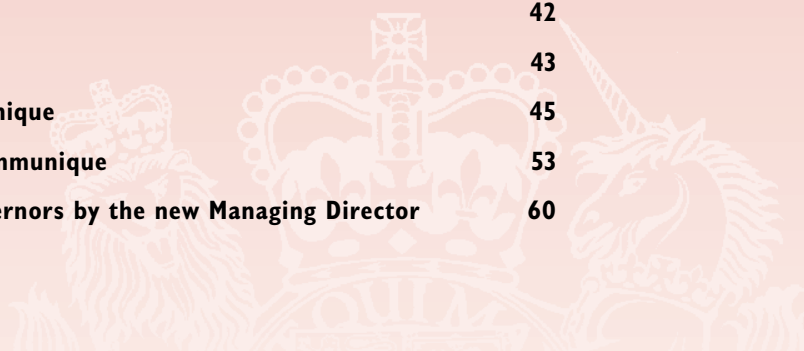


**ANNUAL REPORT TO PARLIAMENT ON UK OPERATIONS AT
THE INTERNATIONAL MONETARY FUND**

OCTOBER 1999 – SEPTEMBER 2000

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I. FOREWORD BY THE CHANCELLOR OF THE EXCHEQUER

I.1 Since its establishment in 1944, the IMF has played a key role in managing the international monetary system. This responsibility is more important than ever in today's world of instantaneous global markets. While the path of open trade and open capital markets that we have travelled in the last 30 or 40 years has brought unprecedented growth, greater opportunity and the prospect of better lives for millions across the world, there is still massive poverty, injustice and denied opportunity. The IMF has a crucial role to play in ensuring that globalisation works for the benefit of all, including the poorest.

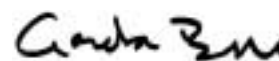
I.2 The new world economy has brought greater risks of insecurity as well as opportunity. It is the duty of the international community through economic co-operation to put in place measures to spot potential difficulties early, to prevent them becoming problems wherever possible and when problems do occur, to minimise the disruption and real damage they can cause. The message for us all - governments, institutions and civil society - must be that in the new world of open capital markets and trade the proper course is not to retreat from global cooperation or globalisation. The way forward is to enhance international economic cooperation for the benefit of all.

I.3 The case for global economic co-operation is being made every day. Much has been achieved, but much remains to be done. We must ensure: -

- cooperation in surveillance to deliver effective early warning of potential problems in the world economy. Considerable progress has already been made in agreeing a framework of codes and standards, as well as strengthening the IMF's surveillance role to make it more transparent and effective;
- cooperation in crisis prevention to provide the right incentives. There has been significant progress over the last year to ensure that all the main participants, public and private, in the international financial system accept their responsibilities and play their part in maintaining stability;
- cooperation in crisis resolution to ensure that the burden of adjustment is not placed on the poor and most vulnerable people. In this area, continued progress has been made in establishing a framework for involvement by the private sector;
- and above all cooperation to break the vicious circle of debt, poverty and economic decline in which so many countries are still trapped, and create a virtuous circle of debt relief, poverty reduction and economic growth. We now have 22 countries through to the point where debt relief can start to flow – 100 per cent debt relief in the case of debts to the UK. These countries will receive \$50billion in debt relief. Furthermore, we have seen a shift away from the old Washington consensus and towards a new consensus where anti-poverty policy and economic reform go hand in hand in recognition that social justice and economic growth are intertwined.

I.4 We should not turn our backs on globalisation. We must continue to build an improved international financial system fit for the twenty first century that will enable all countries to participate in the new world economy and to share in rising prosperity. Enhanced international economic cooperation is the best hope of eradicating poverty and of delivering growth and opportunity for all.

I am pleased to be able to welcome this second annual report to parliament and to the public on the UK and the IMF. It shows our continued dedication to promoting transparency in our relationship with the IMF.



2. INTRODUCTION - THE INTERNATIONAL MONETARY FUND

2.1 As a major trading nation with a history of positive engagement with the international community, and as the home of one of the world's largest international financial centres, the UK has a substantial stake in a strong and stable international monetary system. It is in the UK's own economic interests to promote the free and orderly movement of goods, services and financial assets. The IMF plays a key role in promoting a sound world financial system and broad-based economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties. But the demands on the IMF are continuously evolving. Increasingly integrated economies, open capital markets and rising capital flows have changed the landscape of the international financial system. The IMF must work with its members to ensure that all countries, including the poorest, are able to participate in and benefit from the global economy.

PURPOSE OF THE IMF

The purposes of the IMF are outlined in Article 1 of the IMF's Articles of Agreement:

- 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 Fund 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;
- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

3. THE ROLE OF THE FUND INTO THE 21ST CENTURY

3.1 Background and overview

3.1.1 The IMF's role in managing the international monetary system is more important than ever in today's world of open trade and global capital markets. The recent Government White Paper¹ sets out the UK Government's view that globalisation brings great opportunities for growth and prosperity but it also brings risks and potential instability. The financial crises of the 1990s exposed weaknesses in the international monetary and financial system and demanded significant reform to the system's 'architecture' – that is, the institutions, markets, rules, and practices that form the framework in which governments, businesses, and individuals save and invest. The IMF has a key role to play in developing and implementing those reforms and in ensuring that all countries, including the poorest, are able to participate in and benefit from the global economy.

3.1.2 Successive G7 statements have argued that the IMF must increase its efforts on crisis prevention. A critical part of that is an increased focus on the Fund as the world's primary economic surveillance institution. Comprehensive, transparent and credible surveillance, including the implementation of internationally-agreed codes and standards, will act as an effective early warning mechanism, allowing financial markets to make informed investment decisions. It will also help countries to make decisions to avoid crises.

3.1.3 However successful we are in reforming the international financial architecture to reduce likelihood and severity of crisis, we cannot eradicate the possibility. The Fund must have the right tools in place to facilitate effective crisis resolution and to do so in a way that ensures that the burden of adjustment is not placed on the poor and the most vulnerable.

3.1.4 The Government strongly believes that the IMF and the World Bank must cooperate effectively and integrate their efforts to maximise the impact of their policies to reduce poverty, increase growth, and strengthen the stability of the international financial system. As a universal institution, the IMF has an important role to play in all members' economies, including those of developing countries. Macro-economic stability is a necessary condition for development. The Fund is involved in providing advice and expertise to developing countries on a wide range of issues, including structural issues that have implications for countries' balance of payments.

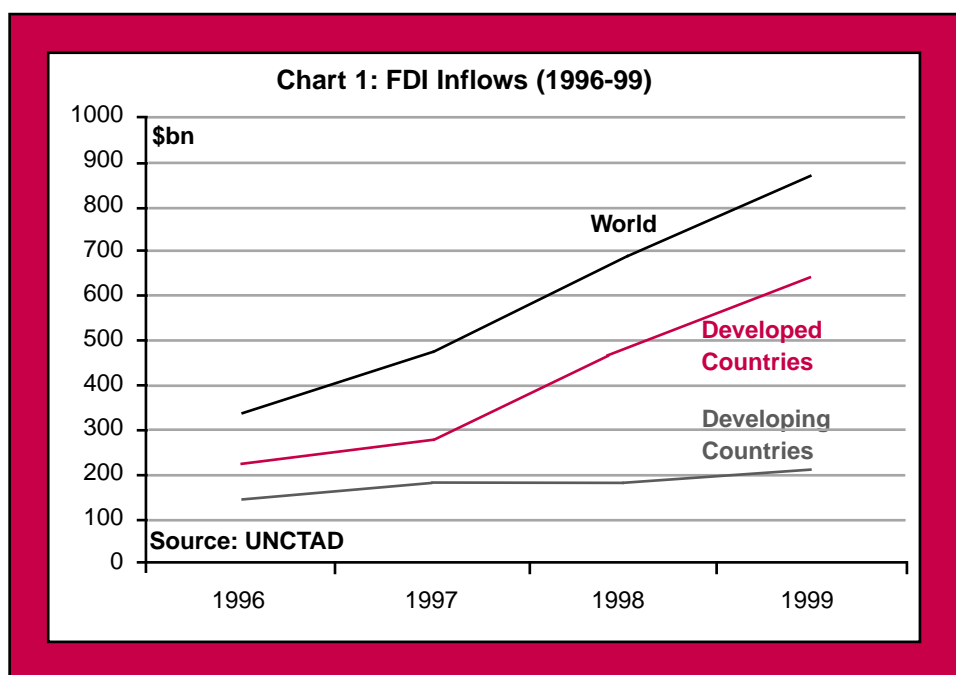
¹'Eliminating World Poverty: Making Globalisation Work for the Poor'. White Paper on International Development – December 2000.

3.2 World Economy

3.2.1 Over the last year, the Fund's operations were carried out against the background of a much strengthened world economy. Global GDP growth in 2000 is likely to be the highest for more than a decade. The US continued to provide the largest contribution to growth over the period (but it has slowed subsequently), but all main regions are expected to have delivered stronger outturns for the year as a whole. EU growth was increasingly robust; recovery, albeit fragile, advanced in Japan; emerging Asia consolidated its recovery from sharp recession in 1998; Latin America, Africa and the Middle East all rebounded following slowdowns in 1999; and the transition economies in Eastern Europe and Russia recorded strong, in some cases unprecedented, growth.

3.2.2 The global upswing of the past year or so was benign in a number of respects. Core inflation remained under control in most economies. Buoyant demand stimulated an increase in world trade. For many developing countries, better policymaking - in terms of both macroeconomic policy and structural reform - has improved access to international capital markets. And, notably, the systemic international crises experienced on a number of occasions during the last decade were absent during the period of this report.

3.2.3 Nevertheless, serious economic and financial problems have continued to affect a number of countries, including Argentina and Turkey. There have also been a number of risks to the wider global economy. In particular, high oil prices threatened to impede the expansion and trigger higher inflation. Significant current account imbalances, high equity valuations and movements in the major exchange rates, also represented threats to stability. Many countries also remained particularly vulnerable due to large external financing requirements, whilst private capital flows to emerging markets were significantly below their levels before recent crises. Flows of Foreign Direct Investment (FDI) around the world have grown consistently over the past decade. Since the Asian crisis of 1997, FDI flows have almost doubled from \$470billion to \$865billion. As can be seen from Chart 1, this rise represents the increased flows to developed countries. The size of the US current account deficit has played an important role in the growing proportion of FDI flowing to developed countries. FDI flows to emerging markets have remained relatively flat since 1997.



THE IMFC

The International Monetary and Financial Committee of the Board of Governors (formerly the Interim Committee on the International Monetary System) is an advisory body made up of 24 IMF governors, ministers, or other officials of comparable rank, representing the same constituencies as the IMF's Executive Board. The IMFC meet twice a year, in April or in May, and at the time of the Annual Meeting of the Board of Governors in September or October. Among its responsibilities are to provide ministerial guidance to the Executive Board and to advise and report to the Board of Governors on issues regarding the management and adaptation of the international monetary and financial system, and on proposals to amend the IMF's Articles of Agreement. The Chancellor of the Exchequer is Chairman of the IMFC.

3.3 The role of the IMF in surveillance

3.3.1 Strengthened IMF surveillance is a crucial element of the reforms to the international financial architecture, and is key to the international community's efforts to establish stronger mechanisms for crisis prevention. The IMF, as the world's primary surveillance institution, carries much of the responsibility for ensuring that the surveillance framework operates effectively and efficiently. Others, including the World Bank, the OECD and the Financial Stability Forum, also have an important role to play.

3.3.2 Surveillance should assess whether a country's economic developments and policies are consistent with the achievement of sustainable growth and domestic and external stability. In this way, surveillance can help to prevent crises, by identifying potential problems and signalling the need for reforms.

3.3.3 The recent Asian crisis emphasised the importance of transparent, credible, and comprehensive surveillance including:

- enhanced disclosure of information. Timely, reliable and comprehensive data are crucial to ensuring that market participants are able to make informed lending and investment decisions;
- a more comprehensive and integrated surveillance process, going beyond short-term macroeconomic indicators to look at the financial sector and the capital account in more detail. Developments in Asia showed clearly how weaknesses in structural and financial policies can impact on macroeconomic stability; and
- greater clarity and transparency in policy advice, to gain credibility and guarantee accountability.

A key element of the work to strengthen IMF surveillance has been the design and promotion of a framework of international codes and standards of best practice.

3.3.4 The IMF's economic and financial surveillance is conducted at both multilateral and bilateral levels. Its multilateral surveillance consists of regular reviews by the Executive Board of global economic and financial developments. Discussions are often based upon reports written by the IMF staff, such as the World Economic Outlook, published twice yearly (in May and October), and the survey of International Capital Markets, most recently published in September 2000.

3.3.5 The IMF's Article IV consultation process is central to its bilateral surveillance, featuring reviews of economic and monetary developments in member countries on a broadly annual basis. In 1999/2000, the Executive Board conducted 127 Article IV consultations with member countries. A summary of each Article IV discussion is issued by the IMF and can be found on their website².

3.3.6 The UK welcomes these assessments of prospects and key risks, and broadly shares its analysis of developments and trends in the global economy and capital markets. A number of key themes were emphasised over the past year, including the need for countries recovering from recent crises to take advantage of the benign global environment and advance structural reform; the need for countries with large and growing external imbalances to take domestic policy action; and the need for exchange rate regimes to be supported both by appropriate macroeconomic policies and by sound financial institutions.

3.3.7 In 2000 the Executive Board discussed all three major economic blocs under the Article IV process. In the USA Article IV discussion in July 2000, Directors praised the country's recent strong economic performance. But they also cautioned that there were significant risks to the outlook, principally the widening current account deficit, significant financial imbalances, and uncertainties surrounding the appropriate valuation of equities.

3.3.8 In March 2000, the Executive Board discussed monetary and exchange rate policy in the euro area. Directors commended the European Central Bank for a policy stance that had been supportive of the euro-area economy throughout 1999, without endangering medium-term price stability. They also noted that the challenge for the Euro area remained to create conditions for sustained rapid growth.

3.3.9 The 2000 Article IV discussion for Japan in August 2000 welcomed the signs of a pick-up in GDP, but highlighted concerns surrounding the very high and rising public debt, and continuing price deflation.

² www.imf.org

THE UK'S ARTICLE IV CONSULTATION

The 1999 Article IV consultations with the UK were held in London from 12th to 22nd November. Fund staff met with the Chancellor of the Exchequer, the Governor of the Bank of England, the Chairman of the Financial Services Authority, senior officials of the Government, the Bank of England and the Financial Services Authority, as well as with the external members of the Monetary Policy Committee, representatives of financial institutions, independent research institutes, business, and trade unions.

The IMF concluded that the performance of the UK economy in recent years has been remarkable and that this strong performance is in good part owing to the improved policy framework, which has fostered sound monetary and fiscal policies and significant structural reforms.

The 1999 UK Article IV report was the first IMF report on the UK to be published in full. The Mission's Concluding Statement was published on 24 November 1999, with the full 1999 staff report being published on 3 March 2000 after discussion of the report by the Executive Board, together with the IMF's Public Information Notice reporting the Board discussion and the statement to the Board by the UK Executive Director. The UK is committed to publishing the documents relating to its Article IV consultations.

3.4 Promoting best practice - Implementing codes and standards

3.4.1 The aim of codes and standards is to provide benchmarks against which countries can assess their own performance, and guidelines to assist them in improving their economic and financial policy frameworks. Once adopted, codes and standards can play an important role in strengthening national financial systems and ensuring the stability of the international financial system. They can also provide the information needed to enable market participants to make informed investment decisions and so stimulate more stable capital flows.

3.4.2 Significant progress has been made in developing and agreeing a wide range of codes and standards. Codes have now been agreed covering fiscal policy transparency, monetary and financial policy transparency, data dissemination, corporate governance and other banking, securities and insurance standards. The IMF has made a significant contribution to this progress, taking the lead in the development of standards governing the transparency of macroeconomic and financial policies and data dissemination.

3.4.3 In addition to participating in the development of codes and standards, the UK, together with its G7 partners, called on the IMF to take the lead in developing a system for assessing the implementation of codes and standards. In taking on this role, the IMF should build on the Article IV surveillance process, and maintain close collaboration with the World Bank and the expert groups responsible for setting international standards in different fields.

3.4.4 Over the past eighteen months, the IMF has begun to produce a series of experimental Reports on the Observance of Standards and Codes (ROSCs), which assess member countries' progress in implementing, progressively, a range of codes and standards. The ROSC framework allows the IMF to produce assessments of observance of individual codes and standards for member countries. Over time, these ROSC "modules" build up to a comprehensive picture of a country's progress in implementing the range of codes and standards, but enable prioritisation according to the specific needs and circumstances of individual countries. The IMF has also begun to make recommendations on how implementation could be further improved. In 1999, the UK's ROSC was among the first to be prepared and published.

3.4.5 The UK has argued that the IMF's responsibility for assessing observance needs to be comprehensive and cover the range of codes and standards relevant to macroeconomic and financial stability. The IMF coordinates the assessment process as well as assessing compliance with standards in areas of direct operational relevance to the Fund - including data dissemination, policy transparency and banking supervision.

3.4.6 Building on this approach, the IMF and World Bank have together established an experimental Financial Sector Assessment Programme (FSAP) through which assessments of domestic financial sector vulnerabilities, and observance of certain financial sector codes and standards, are carried out. The FSAP process feeds into the ROSC exercise, resulting in ROSC modules assessing the codes for monetary and financial policy transparency, the Core Principles of banking supervision, and occasionally other supervisory standards.

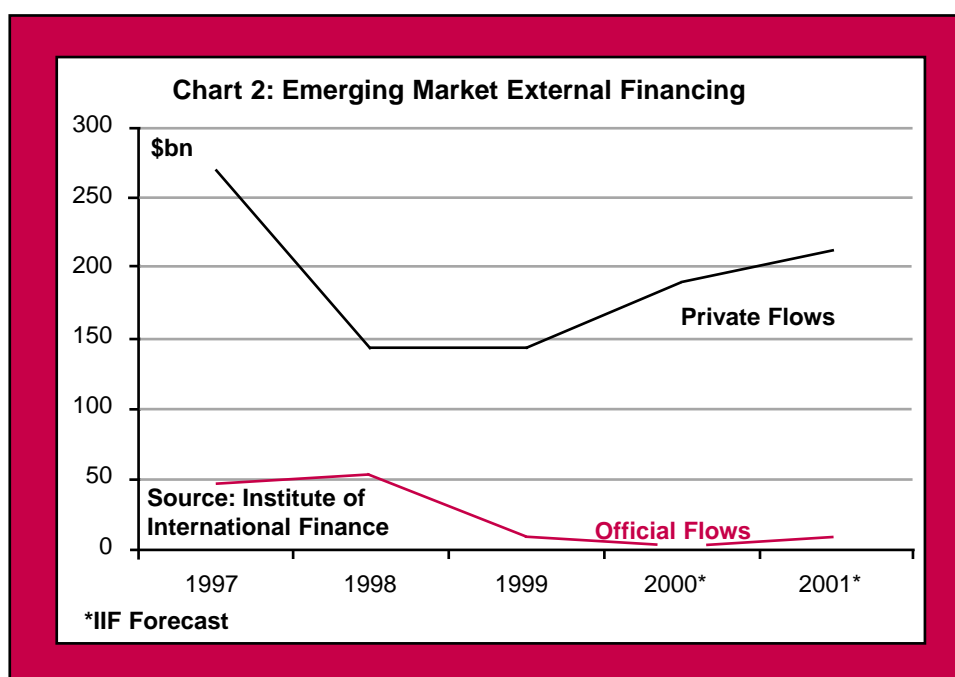
3.4.7 For codes and standards to work effectively there must also be transparency about countries' implementation. The UK has argued that countries should aim for full disclosure of their record in implementing codes and standards including through publication of ROSC reports. In April 2000, the International Monetary and Financial Committee (IMFC) encouraged member countries to voluntarily publish ROSC reports.

3.4.8 At the end of October 2000, 54 modules covering assessments of 16 different industrial, emerging market and developing countries had been finalised and published on the IMF's external website. Looking ahead, the World Bank intends to finalise 12 corporate governance modules, and the IMF a further 15 data modules and around 20 fiscal policy modules, in the period to mid-2001. Over the course of the next year, the two institutions together are planning to undertake around 24 FSAP assessments, which should generate around 48 financial sector ROSC modules. This amounts to substantial progress towards the overall goal of transparency, and a step change in the degree of information available on important determinants of financial stability and security.

3.4.9 Work is also underway within the framework of the United Nations to develop principles of good practice in social policies, which recognise the important link between economic and social issues, and are designed to ensure that the burden of adjustment during times of crisis does not fall disproportionately on the poorest and most vulnerable groups in society.

3.5 Private sector involvement

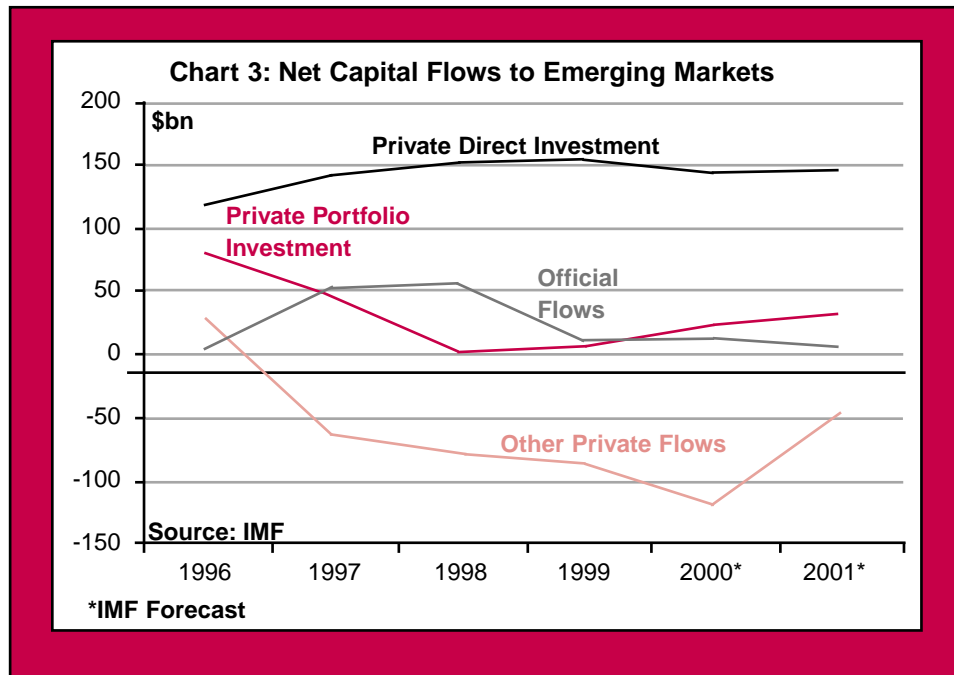
3.5.1 The IMF has an important role in resolving financial crises. The way crises are resolved today may have important implications for the behaviour of the public and private sectors in the future. It must be recognised that the availability of official resources is limited in relation to private capital flows, thus increasing the importance of securing the involvement of private sector creditors.



3.5.2 Chart 2 shows the extent to which private flows to emerging market outweigh official flows from the International Financial Institutions and bilateral sources. Even during the immediate post-crisis period, when official flows played an important role, private flows were still almost three-times greater.

3.5.3 The composition of private capital flows to emerging markets is as important than their volume. The rapid movement of short-term capital causes volatility and crises. Post-1997, portfolio flows and short-term bank finance collapsed but private direct investment remained relatively constant. This demonstrates the importance for emerging market stability of attracting flows of foreign direct investment, and other forms of longer term capital.

3.5.4 The UK has therefore strongly supported work by the international community to develop a new framework of partnership for crisis prevention and resolution between the private and public sectors which provides the right incentives and ensures that all parties which benefit from the international financial system play their part in maintaining stability.



3.5.5 This emerging framework should:

- provide the finance for orderly adjustment;
- recognise that availability of official resources – backed, ultimately, by tax payers - is limited in relation to the scale of international capital flows;
- limit perverse incentives for investors to invest in a country in the anticipation that they will be bailed out by the official sector if a crisis arises;
- strengthen market discipline;
- help emerging market borrowers insure themselves against volatility and contagion;
- avoid undermining the obligation of countries to meet their debts in full and on time;
- and, ultimately, minimise the incidence and intensity of crises.

3.5.6 In their report to the Cologne Summit in June 1999, the G7 Finance Ministers outlined a broad framework of principles for making judgments about the role of the private sector in crisis resolution and highlighted the range of tools available to promote appropriate private sector involvement. While recognising that flexibility is important to cope with the diversity of different cases, this framework was designed to promote more orderly crisis resolution by providing a degree of predictability to shape private and public sector expectations of how crises will be handled in the future.

3.5.7 Since the Cologne Summit, some progress has been made toward making the G7 approach operational. The private sector has been involved in the handling of a number of recent cases, including those in the Ukraine, Pakistan and Ecuador. And in April 2000, the IMFC agreed an operational approach to involving the private sector in debt restructuring and debt reduction cases. This set out the objectives of the official sector and the division of responsibilities between the different actors in the resolution of these types of crises. In particular, the approach specified that in cases requiring debt restructuring or debt reduction:

- IMF-supported programmes should put strong emphasis on medium-term sustainability and should strike an appropriate balance between the contributions of private and official external creditors ;
- the responsibility for negotiations with private creditors should rest with debtor countries who should aim for fairness in the treatment of different classes of private creditors. No class of creditors should be considered inherently privileged;
- the IMF should review countries' efforts to secure needed contributions from private creditors in the light of these considerations; and
- when all relevant decisions have been taken, the IMF should set out publicly how and what policy approaches have been adopted.

3.5.8 This represents an important step in the direction of a more consistent and predictable approach to involving the private sector in the management of debt sustainability crises. But in order to guide expectations more effectively, the UK believes that the international community must continue to work to establish clearer presumptions concerning private sector involvement in the full range of potential crises.

3.5.9 Discussions at the Executive Board have highlighted the following priorities for further work:

- the promotion of a constructive dialogue between members and their creditors;
- the strengthening of the basis for assessments of the pace and magnitude at which countries in crisis can regain market access;
- the strengthening of the basis for assessments of medium-term viability, and whether or not there is a need for debt restructuring;
- further work on debt restructuring, and in particular, the relation between the treatment of Paris Club and private sector claims; and
- further work on assessing the extent of moral hazard.

The UK will continue to contribute to the development of this framework.

THE TOBIN TAX

The volatility of international capital flows in the latter half of the 1990s has revived interest in proposals for a so-called Tobin tax, a tax on all international currency transactions first proposed by economist James Tobin in 1978. Support for the Tobin tax typically derives from the belief that the tax will bring greater stability to the international financial system by raising the cost of short-term, high-volume, small-margin, foreign exchange transactions. The government agrees that there is a continuing need to promote more stable international capital flows to avoid a repeat of recent financial crises. Over the past three years the UK and our G7 partners have consulted widely in an effort to forge consensus on the necessary reforms. In common with other G7 countries, the Government is not persuaded that a Tobin tax would be a workable tool for promoting international financial stability. In particular:

- a Tobin tax would be unlikely to prevent the huge capital outflows seen at times of crisis. Indeed, by reducing market liquidity, and so diminishing price transparency and market efficiency, the tax might actually increase volatility;
- a Tobin tax would fail to differentiate between those currency transactions which allow economies to adjust to price shocks, and those which are pure speculation. And by slowing market adjustment, it might increase and prolong the economic damage in crisis-hit countries, with disastrous results for the most vulnerable groups; and
- it would be almost impossible to achieve global coverage for the tax, creating huge scope for evasion. Without universal application, foreign exchange transactions would gravitate to those jurisdictions, including poorly regulated offshore centres, which did not levy the tax, adding to the instability of the financial system.

The Government therefore believes that the objective of greater international financial stability is better served by the programme of reforms to the international financial architecture being developed by the IMF, and other international fora such as the G7.

3.6 IMF Lending

3.6.1 The IMF provides financial assistance to members to help them correct balance of payments problems in a manner that promotes sustained growth. Assistance is subject to Executive Board approval and, in most cases, to the member's commitment to take steps to address the causes of its payments imbalance. Financing is made available to member countries under various policies or facilities, whose terms address the nature and source of the balance of payments problem that the country is experiencing. There are several types of lending facility outlined in annexe IV of this report.

3.6.2 During 1999/2000, despite greater international financial stability, 11 new Stand-by Arrangements and 4 new Extended Arrangements were approved, whilst a number of existing arrangements were also augmented. In total, new commitments of IMF resources between May 1999 and April 2000 under Stand-by and Extended Arrangements amounted to SDR 22.3 billion (approx \$29 billion).³ The major programmes are summarised below.

3.6.3 The largest new commitment made in financial year 2000 was Argentina's three year Stand-By Arrangement of SDR 5.4 billion (approx \$7 billion), approved in March 2000. Unfortunately, the Argentine economy continued to suffer in 2000 from the impact of adverse external and domestic developments, which prevented a sustained recovery of economic activity, set back the government's efforts to reduce the fiscal deficit and adversely affected investor sentiment. The IMF and the Argentine authorities have as a result strengthened the economic programme, which now aims to boost the productivity and competitiveness of the economy and ensure medium-term fiscal balance. The proposal is to increase Argentina's access to IMF financing by SDR 5.2 billion to a total of SDR 10,585 million (approx \$13,800 million equivalent to 500 percent of quota). Of the total, 100 percent of quota will be made available under the Supplemental Reserve Facility, with the remainder provided under normal stand-by terms. Private sector market participants will also provide around US\$20 billion to support the programme. This programme is expected to be discussed by the Board early in 2001.

3.6.4 Following a series of IMF Arrangements since 1997 which had disbursed over SDR 8 billion, a new three year Extended Fund Facility of just over SDR 3.5 billion (approx \$4.6 billion) was approved for Indonesia in February 2000. This enabled monetary and fiscal policy to facilitate a return to positive GDP growth over the past year, and provided support for a challenging agenda of structural reform necessary to address the key weaknesses in the economy.

3.6.5 After emergency assistance in October 1999, following a major earthquake, a three-year Stand-By Arrangement of nearly SDR 3 billion (approx \$3.9 billion) was approved for Turkey in December 1999 to address deep structural weaknesses, including a historical problem of high inflation. The programme emphasised the need for policies to be supportive of the chosen exchange rate regime, and stressed the importance of a credible strategy for managing inflation at the conclusion of the programme. In the first year, the programme had some success in fiscal adjustment and inflation reduction and in nurturing growth, enabling

³ For reference, as of 1st September 2000, 1 SDR = £0.8984, and 1 SDR = \$1.30268

Turkey to access international bond markets. But problems in the banking sector triggered a crisis in November 2000, against the backdrop of a large current account deficit. Markets were only calmed by major additional lending (of SDR 5.8 billion or approx \$7.6 billion) from a Supplemental Reserve Facility (December 2000), whose conditions included further banking reform, privatisation and consolidation.

3.6.6 Due to a larger than expected current account surplus, Korea was able to accumulate significant foreign exchange reserves throughout 1999. As a result, of the total SDR 14.4 billion (approx \$18.8 billion) that Korea drew under its IMF Arrangements, by August 2000 it had been able to repay SDR 9.95 billion (approx \$13 billion).

3.6.7 With a faster than expected recovery, lower than expected inflation and return of investor confidence associated with progress with fiscal reform, Brazil made repayments of SDR 6.5 billion (approx \$8.5 billion) from its Supplemental Reserve Facility in FY2000 and has now also repaid in full its obligations to the Bank for International Settlements (BIS).

3.6.8 In view of its improved external position and July's smooth political transition, Mexico's authorities repaid all their obligations to the IMF on August 30, 2000. They do not intend to use the additional resources available under their Stand-By Arrangement approved in July 1999.

3.6.9 Russia only received one disbursement under its new SDR 3.3 billion (approx \$4.3 billion) Stand-by Arrangement approved in July 1999, but continued to make repayments (of SDR 3.2 billion in FY2000) under its previous Arrangements. Although the macroeconomic targets of its programme were met, there was insufficient progress on key structural conditions (in particular cash collection for natural monopolies; passing insolvency and bank bankruptcy laws; developing central bank operations and financial safeguards). In the Article IV Consultation in August 2000, there was a call for more urgent progress with reform, in particular restructuring the financial sector, and enabling the central bank to play a more central role in monetary policy.

3.6.10 There were also no disbursements after September 1999 under Ukraine's IMF's Extended Fund Facility due to insufficient progress with structural reforms. Moreover, audits of the Ukraine's official reserves confirmed allegations that the authorities had overstated their reserves in previous years, allowing the Ukraine to make SDR purchases it was not entitled to. This resulted in an agreement that Ukraine should repay the SDR purchases and put in place remedial measures to ensure accurate reporting in future.

3.6.11 A twelve month Stand-By Arrangement for Nigeria was approved by the Executive Board in August 2000. The programme anticipates no use of Fund resources by the Nigerian authorities and is the first stage in Nigeria's re-engagement with the international financial community. An IMF supported programme is crucial to providing the foundations of sustainable growth for the most populous nation in Africa.

Facilities Reform

3.6.12 This year has seen a considerable effort by the Fund to ensure that its financial operations continue to adapt to the changing nature of the global economy, including the rapid growth and integration of international capital markets.

3.6.13 In April, the IMFC endorsed the Executive Board's decision to streamline the range of lending facilities by abolishing four facilities⁴, and streamlining the Compensatory Financing Facility. They asked the Board to continue the review of non-concessional Fund facilities and in particular: -

'consider the policies on the maturity, pricing structure, and other aspects of existing facilities, with a view to ensuring that they provide the right incentives, in particular by enhancing the effectiveness of the Contingent Credit Lines, without compromising the initial eligibility criteria, and by avoiding unduly prolonged use of resources provided under the Stand By Arrangement and the Extended Fund Facility'.

G7 Finance Ministers set out detailed proposals for reform in their report to the Heads of State and Government from Fukuoka, 8 July, 2000. They re-emphasised that the IMF's financial operations should continue to adapt to the globalisation of capital markets. They also stated that a reform priority should be achieving an incentives-based structure for IMF lending, that encourages countries to develop stable access to private capital markets.

3.6.14 Following extensive discussions at the IMF Executive Board and at a meeting of the IMFC deputies in London, the IMFC in September endorsed a new package of reforms, to:

- modify the Contingent Credit Lines to make it a more effective instrument for preventing crises and resisting contagion;
- change the terms of Stand-By and Extended Fund Facility (EFF) Arrangements to encourage countries to avoid borrowing for unduly long periods or in unduly large amounts;
- reaffirm that the EFF should be confined to cases where longer-term financing is clearly required; and
- enhance post-programme monitoring.

3.6.15 The UK believes the changes agreed to the Contingent Credit Line (CCL) could be particularly significant. The CCL is the only Fund facility that operates on the principle of pre-qualification. The changes agreed are intended to make the CCL more attractive and allow it to fulfil its intended role in crisis prevention. The aim is to create the right incentives for the adoption of strong policies and adherence to internationally recognised standards. Approval of financing under the CCL is intended to signal the IMF's confidence in a country's economic policies and in its determination to adjust them appropriately in crisis. Potentially the CCL could change the way that the Fund works with members and provide an increased focus on crisis prevention.

⁴ Namely the Currency Stabilization Fund, support for commercial bank Debt and Debt Service Reduction, the Buffer Stock Financing Facility, and the contingency element of the Compensatory and Contingency Financing Facility.

3.7 Transparency and accountability

3.7.1 Greater information on the activities of the IMF contributes to greater public understanding of the institution. The UK has argued strongly for actions to increase Fund transparency, and improve the effectiveness of its operations and procedures. The promotion of openness and transparency in the public and private sectors will work best if the IMF and other international institutions are themselves more open.

3.7.2 The IMF has taken significant steps to increase its institutional transparency and accountability, through wider dissemination of information about its policies and operations, and increasing contacts with outside groups. In April 2000 the IMFC welcomed a number of additional measures to improve Fund transparency. These included: the expanded publication of information on the Funds liquidity position, members' accounts with the Fund, and the Fund's quarterly financial transactions plan; the systematic publication of policy documents; and the publication of the Executive Boards work programme.

3.7.3 In August 2000, following a successful pilot project, the Executive Board adopted a policy of voluntary publication of Article IV staff reports⁵. The UK believes that the publication of Article IV staff reports is an important step in enhancing the transparency and credibility of IMF surveillance. The UK participated in the pilot project by authorising the publication of our 1999 Article IV report and will continue to do so.

3.7.4 A fundamentally important development has been the agreement to establish an Independent Evaluation Office to look at all aspects of the Fund's work, as the UK has been proposing for a number of years. The office will contribute significantly to the transparency, openness and accountability of the institution. In September 2000 the IMF agreed a structure and mandate for the office, which will be established in Spring 2001. In order to ensure its independence the office will:

- be independent of Fund Management, and operate at arm's-length from the Fund's Executive Board;
- be responsible for its own Work Programme, consulting with Executive Directors, Fund Management, and other interested parties from outside the Fund;
- provide regular reports on its activities to the IMFC, as well as reporting regularly to the IMF Board;
- publish its work programme. There will also be a strong presumption that their reports will be published promptly.

The September meeting of the IMFC strongly welcomed the Executive Board's decision to establish the evaluation office. The committee felt that: 'the creation of this office will help the Fund to improve its future operations and enhance its accountability'.

⁵ As of the 4th December 2000, 60 countries have published their most recent Article IV report.

3.7.5 Over the last year the IMF has continued its efforts to enhance its external communications and better explain itself to a wider audience. Specific measures include:

- accelerating efforts to make more documents available on its public website and through its publications;
- engaging in more frequent and timely public discourse through regular speeches and press briefings by senior IMF management, and by issuing additional explanatory material;
- increasing staff communications with parliamentarians representing a wide range of member countries;
- working to complete the new IMF Centre, a public information and outreach facility which has just opened.

3.7.6 There has also been a debate about the appropriate mechanism for selecting the heads of the IMF and other international institutions. In July 2000 a working group of the Board was established to review the process for selection of the IMF Managing Director. The working group's mandate is to review the Fund's experience with the nomination, selection, and appointment of the Managing Director and make recommendations on possible improvements to the process. A parallel group has been set up at the World Bank to review the process for the selection of the President. The Government believes that any proposals to change the selection procedures for these posts should be considered together.

3.8 Safeguarding Fund resources

3.8.1 While episodes of misreporting of information to the IMF or allegations of misuse of Fund resources are rare, both the UK and the IMF take them extremely seriously. These episodes have the potential to undermine the trust between the Fund and its members, as well as the public confidence in the Fund.

3.8.2 In September 1999, the IMF adopted a new framework for the conduct of safeguard assessments. The new two-stage approach strengthens existing safeguards by assessing a central bank's compliance with a set of desirable practice, rules and regulations for internal control procedures, financial reporting and audit mechanisms. In addition, all countries that make use of Fund resources must publish annual central bank financial statements. These statements should be independently audited in accordance with internationally accepted standards. To ensure credibility and transparency, the IMF will publish a press information notice in all cases of misreporting.

3.9 Tackling abuse of the international financial system

3.9.1 The stability and integrity of the international financial system depends on a robust system to protect against abuses – including financial fraud, money laundering, corruption, tax evasion and regulatory abuse. The international community has shown a strong commitment to tackle areas of weakness that allow the international financial system to be undermined by criminality or other forms of abuse. The UK has and will continue to play a leading role in these efforts. This commitment is reflected in the Government’s plans to introduce legislation to improve our domestic defences against financial crime. On the international stage the UK has supported a number of initiatives: to increase cooperation between regulatory, law enforcement and tax authorities; to improve the exchange of information across national boundaries; to strengthen international standards; and to address the vulnerabilities caused by countries which fail to cooperate adequately in the fight against financial crime and abuse.

- The Financial Action Task Force (FATF, the international body responsible for setting the fundamental anti money laundering standards) has highlighted a number of jurisdictions that have failed to cooperate adequately with international efforts to combat criminal money⁶. The FATF is now leading a process of engagement with those centres, to encourage them to address the deficiencies in their systems. FATF member countries, including the UK, have issued warnings to financial institutions to pay particular attention to financial flows that involve non-cooperative jurisdictions. In the event that deficiencies remain following this process of engagement, the FATF will consider other appropriate measures.
- The FATF is also considering amendments to its anti-money laundering standards (the “40 Recommendations”) to strengthen the fight against money laundering. For example, there is a need to set more comprehensive standards to deal with the abuse of company vehicles, including measures to promote greater transparency in their ownership and control.

⁶ The non-cooperative countries and territories listed by the FATF are: Bahamas, Cayman Islands, Cook Islands, Dominica, Israel, Lebanon, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, Philippines, Russia, St Kitts and Nevis, St Vincent and Grenadines

- The UK Government is promoting greater exchange of information between tax authorities, as the most appropriate means to ensure compliance with tax laws in today's world of international capital flows. In particular, the Organisation for Economic Cooperation and Development (OECD) has set out new standards for cooperation between tax authorities to combat tax evasion and harmful tax practices. As part of this work, the OECD has identified a list of jurisdictions meeting its tax haven criteria⁷. Those which fail to commit by 31 July 2001 to co-operate with the OECD to eliminate harmful tax practices will be subject to further listing as 'unco-operative' tax havens, and as such may be the subject of coordinated defensive measures. At their meeting in September 2000, Commonwealth Finance Ministers agreed to promote a greater multilateral dialogue to tackle tax abuse, while recognising the implications of these initiatives for small states dependent on financial services.
- The G7 issued a report on abuse of the financial system at their summit in Okinawa in July 2000. That report demonstrates the high level of political commitment to action, and the extent to which measures to tackle financial crime and abuse are now an integral part of the new architecture of the international financial system.

3.9.2 The IMF, the World Bank and other international financial institutions have an important role to play in the international community's fight against financial crime and abuse – in partnership with other bodies, such as the FATF. For the IMF, this role complements their work on surveillance of economic and financial vulnerabilities, in supporting international financial stability, and in promoting adherence to internationally agreed codes and standards. The IMF's work on offshore financial centres, described in section 3.10 below, is an important part of this framework. The World Bank's work in promoting financial sector reform could play a greater role in the fight against crime and abuse, particularly through its technical assistance programme. The communiqué of the September meeting of the IMFC recognized that "the Fund has to play its role as part of the international efforts to protect the integrity of the financial system against abuse, including through its efforts to promote sound financial sectors and good governance" and asked the Fund to "explore incorporating work on financial abuse, particularly with respect to international efforts to fight against money laundering, into its various activities, as relevant and appropriate."

3.9.3 Ministers will have an opportunity to review the role of the IMF and World Bank in combating financial abuse at the IMFC and Development Committee meetings in April 2001.

⁷ The OECD's list of jurisdictions which meet the tax haven criteria is: Anguilla, Andorra, Antigua, Aruba, Bahamas, Bahrain, Barbados, Belize, BVI, Cook Islands, Dominica, Gibraltar, Grenada, Guernsey, Isle of Man, Jersey, Lebanon, Liechtenstein, Maldives, Marshall Islands, Monaco, Montserrat, Nauru, Netherlands Antilles, Niue, Panama, St Kitts, St Lucia, St Vincent, Samoa, Seychelles, Tonga, Turks & Caicos, US Virgin Islands, Vanuatu. A further 6 jurisdictions made a public political commitment at the highest level to eliminate their harmful tax practices and to comply with the principles of the 1998 Report, in recognition of which their names were not included in the Report even if they met the criteria.

3.10 The Fund and offshore financial centres

3.10.1 Offshore financial centres have become an increasingly important feature of the international financial system and, as a result, their standards of regulation have come under increased scrutiny. The UK believes that international standards should apply to both onshore and offshore centres. The appropriate distinction is between those centres that meet international standards and those that do not.

3.10.2 The IMF has instituted a wide-ranging examination to increase the application of international standards to offshore financial centres. This responds to the International Monetary and Financial Committee's Communiqué of April 16, 2000, and follows a report by a working group of the Financial Stability Forum that set out the case for enhanced assessments of their adherence to key international standards. The IMF's work in these areas is an extension to its responsibility to help all members identify and reduce vulnerabilities arising from weaknesses in financial systems. In its March 2000 report on OFCs, the FSF noted that "OFCs, to date, do not appear to have been a major causal factor in the creation of systemic financial problems. But OFCs have featured in some crises, and as national financial systems grow more interdependent, future problems in OFCs could have consequences for other financial centres. "In view of this, there is concern about regulatory standards and transparency in some of them, which the IMF should take account of in its assessment of overall financial stability.

3.10.3 After a number of Board discussions over the past year, the Fund has decided on a programme focused on standards of financial supervision; covering banking, insurance and securities as appropriate. The Executive Board have also emphasised the need to address the robustness of consolidated supervision of "onshore" financial institutions with links to offshore financial centres. The Fund has proposed a modular approach to the conduct of assessments; drawing on a mix of assisted self-assessments, assessments by Fund staff, and, where appropriate, more comprehensive assessment of risks, vulnerabilities, and adherence to codes and standards. The Fund is taking this work forward in consultation with the authorities of the relevant offshore financial centres. It will also continue to play an active role, working closely with others, in providing technical assistance to those offshore financial centres that are working to upgrade their supervisory laws, structures and practices.

3.10.4 These international initiatives complement the steps the UK Government has been taking to improve the standards of financial regulation in those UK Crown Dependencies and Overseas Territories with significant international financial centres. The UK has been providing these Overseas Territories and Crown Dependencies with advice and guidance on what is needed in order for them to satisfy best practice and international standards of financial regulation, although responsibility for regulatory activity in these jurisdictions is vested in the local administrations. In March 1999 the Government was able to welcome progress in improving the standard of financial regulation in the Isle of Man and the Channel Islands, following the publication in 1998 of a thorough review⁸. In October 2000, KPMG published a wide-ranging review of standards of financial regulation and compliance with international standards in the Caribbean Overseas Territories and Bermuda⁹.

⁸ 'Edwards Report on Financial Regulation in the Crown Dependencies'.

⁹ 'Review of Financial Regulation in the Caribbean Overseas Territories and Bermuda'. Details of these reports can be accessed through the Treasury and Home Office Websites.

That report highlighted a number of strengths, but also a number of areas where improvements needed to be made. The UK Government will continue to work closely with those territories to ensure the implementation of necessary improvements.

3.11 Co-operation with other international organisations

3.11.1 A key element of the IMF's role in the global economy is its relationship with other international organisations. In particular, the IMF and the World Bank play important, complementary roles in ensuring the world's economic growth and stability. In recent years, the recognition of the link between macroeconomic stability and structural policies, particularly in the world of open capital markets has required the two institutions to work ever more closely together. The Government strongly believes that the IMF and the World Bank must cooperate effectively to maximise the impact of their policies to reduce poverty, increase growth, and strengthen the stability of the international financial system.

3.11.2 The UK therefore welcomes the recent joint statement from the President of the World Bank, James Wolfensohn, and Managing Director of the Fund, Horst Köhler, which promises an enhanced partnership between the two institutions¹⁰, recognising that:

“The IMF was established as the World’s central monetary institution, charged with the promotion of international monetary cooperation and international trade. The Bank was established to promote post-war reconstruction and the flow of capital to developing countries. As the world economy has grown and changed, so too the roles of the Fund and the Bank have evolved, their joint efforts now covering the spectrum of developing, transition, and industrialised economies. Both institutions, however, share the same broad objective: helping to improve the quality of life and reduce poverty through sustainable and equitable growth”.

¹⁰ ‘The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction’ Joint Statement by Horst Köhler and James Wolfensohn, September 5th 2000.

3.II.3 To be most effective, the institutions need to focus on their respective core tasks, while integrating efforts in the many areas where responsibilities overlap. They must develop new models for co-operation to reflect the interdependence of their remits. There has been continued progress, including co-operation on financial sector reform and the establishment of the Financial Sector Assessment Programme (FSAP); increased collaboration in tackling poverty and debt relief, in particular through the development of the Poverty Reduction Strategy Paper (PRSP) framework and in the implementation of the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Joint sessions of the Development Committee and IMFC in September 1999 and 2000, to discuss progress on HIPC, as well as joint board meetings have also contributed to this.

THE RELATIONSHIP BETWEEN THE IMF AND WORLD BANK – INSTITUTIONAL ASPECTS

The Fund and the Bank are separate international organizations, each with its own legal personality, and each governed by its own Articles of Agreement. The Articles of both organizations require them to promote: the balanced growth of international trade; equilibrium in balances of payments; high levels of employment and real income; and the development of productive resources. There are some structural links between the two institutions:

- The Articles of the Bank restrict membership to countries that have become members of the Fund. There is no corresponding provision in the Fund's Articles – no country joining the Fund is required to join the Bank. In practice, however, the membership of the two institutions is identical.
- The Executive Boards of the two institutions are composed in broadly the same manner.
- Annual meetings of the two Boards of Governors are held jointly.
- The Development Committee considers the interests of both institutions in development issues.

Over the last twenty to thirty years, there have been a number of formal collaboration discussions and agreements, principally the 1966 and 1989 Memoranda on Collaboration. These establish areas of primary responsibility for the two institutions, whilst recognising a broad and increasing range of matters for which both institutions have responsibility. They also set up procedural arrangements to share information, enhance communication, and resolve disagreements.

THE G20

In their report to the 1999 Cologne Economic Summit, G7 Finance Ministers agreed to establish “a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote cooperation to achieve stable and sustainable world economic growth that benefits all.”

Since then, the Finance Ministers and Central Bank Governors of this new group, the G20, have met on two occasions under Canadian Presidency : in Berlin in December 1999 and in Montreal in October 2000. Discussions in the G20 are intended to complement and reinforce the role of the governing bodies of the Bretton Woods institutions, including the IMF, by providing an opportunity for informal sharing of experiences and the development of common views on key economic issues. In its meetings to date, the G20 has addressed issues such as the opportunities and challenges of globalisation and measures to reduce vulnerability to financial crisis, including private sector involvement and the implementation of codes and standards.

Membership of the G20 comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States of America and the EU Presidency. In addition, meetings of the G20 are attended by the Chairs of the IMF International Monetary and Financial Committee and the World Bank Development Committee as well as by the Managing Director of the IMF and the President of the World Bank.

THE FINANCIAL STABILITY FORUM

The Financial Stability Forum (FSF) was established in 1999 in response to the Chancellor's proposal for a Standing Committee on Global Financial Regulation. It is developing to fulfil its role as an early warning system for financial crises. It consists of high-level officials from Finance Ministries, Central Banks and financial supervisory authorities of the major financial centre economies together with representatives from relevant international financial institutions and regulatory bodies. Countries with developing economies are drawn into the Forum's work whenever it touches on issues of relevance to them. It meets twice a year, in spring and autumn.

The objective of the Financial Stability Forum, as agreed in the G7 communiqué of 20 February 1999, is:

“to ensure that [participants] can more effectively foster and coordinate their respective responsibilities to promote international financial stability, improve the functioning of markets and reduce systemic risk.”

In order to achieve this objective the FSF assess vulnerabilities in the global financial system, identifies and oversees actions necessary to address these vulnerabilities; and improves co-ordination and information exchange between other authorities.

Mr Andrew Crockett, General Manager of the Bank for International Settlements (BIS), was appointed Chairman of the FSF in his personal capacity for a term of three years. Support for the Forum is provided by a secretariat located in Basel, Switzerland. Mr Crockett also gave a presentation to the IMFC at the 2000 Annual Meetings in September, focussing on global financial markets and the potential risks to the world economy.

The IMF is a member of the Forum and much of the Forum's work relates closely to that of the IMF.

4. DEBT RELIEF, GROWTH AND POVERTY REDUCTION

4.1 Background and Overview

4.1.1 High levels of debt have been increasingly recognised as a constraint on the ability of poor countries to pursue sustainable development and reduce poverty. There have been successive initiatives since the mid 1980s to tackle the problem of debt owed to bilateral official creditors. The Heavily Indebted Poor Countries Initiative (HIPC) was launched in 1996 and was the first initiative to look at the debt of both multilateral organisations and bilateral official creditors, in a comprehensive effort to eliminate unsustainable debt in the world's poorest, most heavily indebted countries. This was not providing sufficient debt relief quickly enough. Nor was there any clear link between debt relief and poverty reduction. By 1997 not one country had completed the process. By 1999, despite renewed efforts, only four of nearly forty poor countries had done so and only five had completed the first stage.

4.1.2 The UK and others pushed for a fundamental review of the HIPC progress, looking at experience with the initiative itself, and at the link with poverty reduction. A new, enhanced initiative that would deliver faster, deeper and broader debt relief was agreed at the 1999 Annual Meetings, following on from the G7 summit in Cologne.

4.1.3 This chapter reviews progress with the enhanced HIPC initiative in its first year, and the efforts that have been taken to ensure effective implementation. It also sets out the steps the Government has taken to provide 100 per cent relief on debts owed to the UK.

4.2 The enhanced HIPC initiative

4.2.1 The UK pressed strongly for the original launch of the HIPC initiative by the World Bank and the IMF in 1996 as the first comprehensive effort to eliminate unsustainable debt in the world's poorest, most heavily indebted countries. However, the UK was concerned that the original initiative was not delivering debt relief fast enough, and was failing to free up resources for spending on poverty reduction. Hence the UK pushed for an improved scheme.

4.2.2 The HIPC initiative is a two-stage process:

- At **Decision Point**, a country needs to have a satisfactory track record, and demonstrate its commitment to poverty reduction – through the publication of an interim Poverty Reduction Strategy, and through commitment to an IMF programme for macroeconomic stability and reform. Interim debt relief starts to flow from that point;
- At **Completion Point**, when a country has presented a full Poverty Reduction Strategy, and shown it has implemented the programme agreed with the IMF, debt relief is irrevocable.

4.2.3 In 1999, the enhanced HIPC initiative agreed a number of major changes:

- a clearer link with poverty reduction, demonstrated through Poverty Reduction Strategies, developed and owned by the country concerned, through a process of consultation with the public and others most affected.
- more and faster debt relief to more countries, through the lowering of debt sustainability thresholds, and the provision of interim assistance by all creditors; and
- floating completion points, which place emphasis not on an arbitrary fixed period, but on a country's achievements.

4.2.4 Along with the changes to the HIPC framework, the international community set challenging targets for the number of countries benefiting from substantial debt reduction. At the Annual Meetings in Prague, the IMF and World Bank announced a target to bring 20 HIPCs to decision point by the end of 2000. This would lead to around \$50billion in total debt relief – a significant step towards the G7 target of \$100billion in debt relief.

DEBT RELIEF - THE ROLE OF NON-GOVERNMENTAL ORGANISATIONS AND FAITH GROUPS

The international campaign for debt reduction has been led by a number of grass-roots organisations, campaign groups and faith communities. For the year 2000 many of these groups have come together in a coalition – Jubilee 2000. They have been instrumental in forcing the issue of the debt burden to the top of the international agenda, through the strength of their analysis of the problem, and by mobilising public support through a series of hard-hitting campaigns.

Throughout 2000, the Chancellor and Secretary of State for International Development have been holding a series of Downing Street seminars with non-governmental organisations and faith groups. There have also been many individual meetings between UK campaigners and ministers and officials. The UK campaigners have also engaged with management and staff of the international financial institutions – including the IMF Managing Director Horst Köhler.

In support of the campaign, hundreds and thousands of people have written postcards, letters and emails to the Chancellor. In 2000 the Treasury received 246,975 postcards, 12,500 letters and nearly 70,000 emails.

4.3 Implementing the initiative

4.3.1 In the first few months of 2000, progress in delivering debt relief was slow, and by the end of June only seven countries had reached decision point. At their summit in Okinawa, heads of the seven leading industrialised countries welcomed the progress there had been, but encouraged further progress, and reaffirmed their support for the targets agreed at Cologne.

4.3.2 During the summer the UK worked closely with the IMF and World Bank, and other governments, to identify obstacles. In September 2000 the IMF and World Bank produced a new set of measures to encourage faster progress: The IMF and World Bank:

- increased the degree of flexibility in assessing the track record of performance against an IMF programme;
- committed to a paring down of conditionality to those reforms essential to deliver poverty reduction and growth;
- clearly established that only interim or outline Poverty Reduction Strategy Papers were needed to reach decision point so that they did not hold up debt relief.

4.3.3 These measures were accompanied by a strong expression of personal commitment from President James Wolfensohn of the World Bank and the Managing Director of the IMF, Horst Köhler, a message Mr Köhler reiterated at a Downing Street seminar with the Chancellor, and with non-governmental organisations and faith groups. At the Annual Meetings of the IMF and World Bank in September, the IMFC and the Development Committee held a joint meeting to assess progress, and to welcome the steps that had been taken. In their joint communiqué, the two committees representing Finance and Development ministers from both developed and developing countries, from all regions of the world, concluded that: *“the joint meeting symbolises the close cooperation and high political commitment of all countries and institutions to achieving a virtuous circle of debt relief, poverty reduction and economic growth for the poorest countries of the world”*.

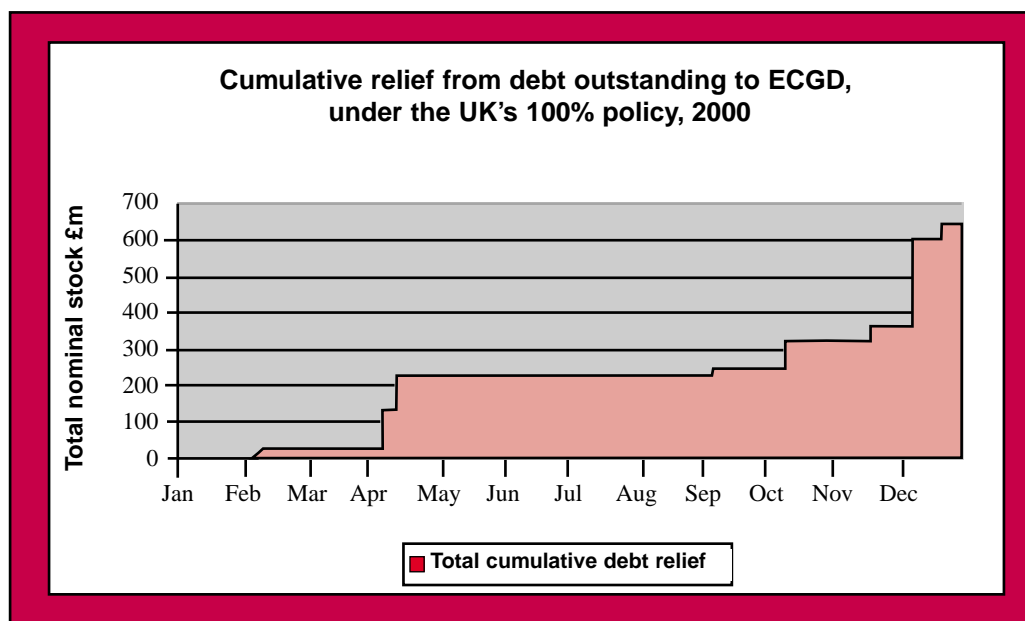
4.3.4 Progress since the summer has been very encouraging, with 22 countries reaching decision point by the end of 2000.

Table I : Countries that have reached decision point under the HIPC initiative

Country	Decision point date 2000
Uganda	5 February
Bolivia	8 February
Mauritania	10 February
Tanzania	5 April
Mozambique	12 April
Senegal	23 June
Burkina Faso	30 June
Honduras	6 July
Benin	11 July
Mali	6 September
Cameroon	10 October
Guyana	17 November
Zambia	8 December
Gambia	14 December
Guinea Bissau	15 December
Niger	20 December
Sao Tome	20 December
Nicaragua	21 December
Malawi	21 December
Madagascar	21 December
Guinea	22 December
Rwanda	22 December

4.4 The UK's 100% Debt Relief Policy

4.4.1 The UK Government announced in December 1999 that all countries receiving debt relief under the enhanced HIPC Initiative would, from decision point, be effectively granted relief on 100 percent of their remaining debts to the UK. Assuming they remained on track and were making progress towards completion point conditions, they would not need to make any more payments to the UK.



4.4.2 The 100 percent commitment covers all debt to the Export Credits Guarantee Department (ECGD) incurred up to the end of 1999. A number of other countries – including all the G7 – also introduced a similar commitment.

4.4.3 During 2000 this approach was extended through two additional measures, both of which further increased the level of debt relief available from the UK:

- In October 2000, the Secretary of State for International Development announced that any outstanding debts that HIPC countries still owe to CDC plc (formerly called the Commonwealth Development Corporation) would be included as part of the 100 percent debt reduction commitment. This increased the total value of the UK's policy by a further £100 million.
- In December 2000, at a rally organised to celebrate the success of the Jubilee 2000 campaign, the Chancellor announced that the UK would no longer benefit financially from any payments made by the 41 HIPC countries. The Chancellor also announced that payments to the UK from those countries which were not at the moment in a position to reach decision point would be held in trust, and spending in support of their Poverty Reduction Strategies once they reach decision point would be increased accordingly.

4.5 The HIPC Initiative Beyond 2000

4.5.1 Despite the achievement of the ambitious targets set for 2000, a number of countries which are in a position to qualify for the initiative are still unable to benefit from debt relief due to conflict or because they do not yet have clear Poverty Reduction Strategies which show how savings from debt relief will flow to poverty reduction. At the G7 Summit in Okinawa in July, Ministers called on these countries to end their involvement in conflict as a necessary first step to tackling poverty and qualifying for debt relief.

4.5.2 At the Annual Meeting in Prague, the need to focus on conflict was re-emphasised. There are many difficult issues to address, and a need for the countries themselves to turn away from conflict. But, as urged by the UK, the IMF and the World Bank agreed to better integrate their activities in countries affected by conflict in support of the HIPC process. At the joint meeting between the IMFC and the Development Committee, ministers called for a joint review of post-conflict work by the IMF and World Bank. Ministers also supported an extension of the “sunset clause”, which sets a time limit for entry into the HIPC process, to allow more time for countries currently affected by conflict to come forward for debt relief.

4.5.3 The UK is playing a part in this global initiative, and our efforts to bring stability to Sierra Leone are indicative of our commitment. Furthermore, in July the UK established a ministerial group to bring together development, political and military efforts on conflict prevention and management in sub-Saharan African countries, including many ineligible HIPCs. Funding for conflict prevention has been increased by 42 per cent in real terms as part of the Spending Review 2000. These resources, with new money from the Treasury, will be directed towards African conflict countries where the UK can make a significant impact. This is the first step towards returning these countries to the more traditional methods of help outlined in this chapter.

4.6 HIPC Financing

4.6.1 Financing the HIPC process requires a substantial mobilisation of resources by the international financial institutions and regional development banks, and by individual donors and creditors. Throughout 2000 governments and institutions have made the necessary commitments to ensure that financial constraints have not in any way inhibited progress towards debt relief. The international community has been clear that political support for debt relief must be accompanied by financial support. It is also clear that funding for debt relief should not divert resources that would otherwise be spent in support of poverty reduction elsewhere.

4.6.2 Those efforts have been successful. Bilateral debt reduction by creditor governments from the major industrialised countries is managed through the Paris Club, as set out in the box below. The UK continues to urge non-Paris Club creditors to join with them to give debt relief on the same terms. Relief on debt owed to the multilateral institutions needs to be financed by contributions from the institutional shareholders if the ability of the institutions to support development is not to be compromised. The funding modalities for the multilateral institutions are also in place, and the relevant institutional creditors (the IMF, World Bank and regional development banks) have now agreed the terms of their participation in the HIPC initiative.

4.6.3 The IMF needed to generate \$2.2 billion in net present value terms to participate in HIPC. In 1999 the Executive Board agreed to use proceeds from off-market gold transactions to largely fund its contribution to the HIPC initiative. Between December 1999 and April 2000 the IMF completed seven such transactions, amounting to 12.9 million ounces of gold. Approval for the remaining tranches depended upon securing an 85 per cent majority of the Executive Board, which could only be achieved with the support of the US. Following approval by the US Congress in October 2000, a sufficient majority was achieved. The IMF has also received a number of bilateral financing commitments, including a UK contribution of \$69 million.

4.6.4 In order to meet the funding requirements of the regional development banks – including the African Development Bank, the Inter-American Development Bank, and a number of smaller sub-regional development banks – the HIPC Trust Fund was established. The Trust Fund, which is managed by the World Bank, has received commitments from a number of donors, including a UK pledge of over \$300 million – the second largest pledge after the US. \$85 million of the UK's pledge forms part of a €1 billion package of support from the European Union to the Trust Fund. Contributions to the HIPC Trust Fund have therefore allowed the regional development banks – major creditors to HIPCs – to make the necessary commitment to debt reduction. As we have seen, the IMF is writing off some \$2.2bn as part of the HIPC initiative, the World Bank some \$9bn (in nominal terms). Funding for the IMF is in place. For the World Bank funding is in place already to fund its participation until 2005. After this significant additional resources will need to be provided by shareholders - resources they have committed to provide in addition to the resources they will provide to fund future World Bank concessional lending.

Contributions to the HIPC Trust Fund – December 2000 (\$m)

Donor	Total Paid-in Contributions/ Outstanding Pledges
Australia	12
Austria	42
Belgium	38
Canada	102
Denmark	60
Finland	33
France	181
Germany	226
Greece	9
Iceland	2
Ireland	19
Italy	153
Japan	200
Luxembourg	2
Netherlands	172
New Zealand	2
Norway	79
Portugal	21
Spain	124
Sweden	81
Switzerland	60
United Kingdom	306
United States	600
Total EU/EC Contributions	661
TOTAL	2,525

THE PARIS CLUB'S ROLE IN DEBT RELIEF

The Paris Club is an informal group of 19 creditor governments, chaired permanently by France. The purpose of the organisation is to provide a channel of communication for countries experiencing external financing difficulties to their official creditors. Working closely with the IMF, the Paris Club aims to redefine the pattern of payments due to its members in a way that both relieves the immediate financing needs of the country and is consistent with its long-term ability to pay. This usually means rescheduling the debt by postponing payments due in the short term and defining a new timetable for payment of these sums in the future. By working together within a set of broadly defined rules and reaching decisions by consensus, all member governments are fully committed to fulfilling the agreement.

For the poorest countries, it has long been recognised that debt rescheduling is not a long term answer to their financial or developmental needs and that a more complete solution is required. The Paris Club is the forum for implementing the debt reduction required of bilateral governmental creditors in the context of the HIPC initiative, the latest and most comprehensive framework for resolving the long standing debt problems of these countries. In the last twelve months seven of the nine agreements that the Paris Club has signed with debtor countries have been directly related to the implementation of the HIPC initiative.

Pre-HIPC, the Paris Club treatment of debt was agreed between governments and mainly involved rescheduling and long grace periods. Later on it moved on to debt forgiveness, first on debt service payment and then on actual debt stocks. From 1988 there have been a series of schemes for debt reduction. The objective under the HIPC framework is to deliver debt sustainability as measured by either the ratio of debt to export earnings or on ratio of debt to public revenue. This initiative itself was enhanced under UK advocacy leading to the enhanced HIPC initiative (HIPC II) which called for faster, deeper and wider debt relief raising Paris Club's flow of interim relief to 90 percent at decision point and full stock treatment at completion point for all HIPC countries.

4.7 PRSPs and the PRGF –Delivering poverty reduction

4.7.1 At last year's Annual Meetings, the World Bank and IMF agreed to a new approach to development, with country-owned, community driven Poverty Reduction Strategies. Governments in HIPC countries are now leading national processes to develop a Poverty Reduction Strategy Paper (PRSP), by involving the civil society and the international community. These strategies will set out the policy action governments propose to take to reduce poverty and provide a budgetary framework not only for spending the savings from debt relief but also for allocating all other aid and government revenue so that they maximise the impact on poverty reduction. This approach will involve substantial changes in World Bank and IMF operations, with their programmes providing support to these nationally led development plans. The experience of many countries has shown that growth is not sustainable if a large section of the population feel excluded from making decisions about their destiny - hence the emphasis on civil ownership.

4.7.2 Countries have responded positively to preparing nationally owned Poverty Reduction Strategy Papers. Countries have drawn on their own prior experience with poverty reduction programmes in preparing PRSP's, and have identified as priorities for poverty reduction not only expected areas such as broad based growth, priority attention to social sectors, provision of public services to the poor, and a strong focus on rural development, but also in areas such as governance, anti-corruption, transparency and accountability. In addition, several countries have linked their priorities explicitly to the International Development Targets, and have highlighted special efforts to assist disadvantaged groups (including women).

4.7.3 The PRSP approach is widely supported by countries and development partners, and is rapidly gaining momentum. There is still much progress to be made, but countries, the IMF and the World Bank are all moving purposefully to put poverty reduction at the centre of nationally owned strategies.

4.7.4 The Poverty Reduction and Growth Facility (PRGF) is the key instrument for supporting countries in implementing this new approach, and this in turn means that the content and process for PRGF has changed in some ways from previous practices. PRGF is the lending instrument whose main features are drawn from the countries' own Poverty Reduction Strategy Papers. PRGF supported programmes are derived from and reflect the overall growth and poverty reduction strategy, which itself is based on fully integrated macroeconomic, structural and social policies. The scope of PRGF programmes are now more focused on the Fund's own areas of expertise and much of the structural conditionality in support of the PRSP's objective will be covered in parallel Bank programmes.

4.7.5 The importance of helping countries develop budgets that are more pro-poor and pro-growth has been stressed by both the Board and by other development partners in commenting on the PRSP/PRGF approach. Hence country programmes are expected to exhibit one or more of the following features:

- a readjustment in government spending towards social sectors, basic infrastructure, or other activities that demonstrate a benefit to the poor;
- an improvement in the efficiency and targeting of spending towards key sectors relevant to growth and poverty reduction;
- tax reforms that simultaneously improve efficiency and equity.

4.7.6 The enhanced HIPC initiative has begun to deliver broader, faster and deeper debt relief, and the IMF and the World Bank are fully committed to do everything within their control to accelerate its successful implementation. Development partners are already supporting country efforts or planning to do so, and discussing ways in which they can help further. This is truly a global and collaborative effort, and early progress has been substantial.

4.7.7 The UK has shown its determination to create real change by not only directing increasing resources towards the poorest countries but also increasing significantly the total aid budget. Between 1997-98 and 2003-04, our development assistance will rise by 45 percent in real terms, reaching nearly £3.6 billion in the final year and 0.33 percent as a proportion of GNP. This is the largest UK development budget ever in real as well as cash terms. The UK is not only increasing and retargeting its assistance. It is also aiming to make it more efficient through aid untying. World Bank studies have shown that tying aid to the purchase of goods and services from the donor country reduces the value of that aid by around 25 percent. The UK recently announced that it will unilaterally untie all its aid and that it will continue to press for multilateral untying¹¹.

¹¹ The UK's approach to development is set out in the Government White Paper 'Eliminating World Poverty: Making Globalisation Work for the Poor' – December 2000. Available at www.globalisation.gov.uk.

MACROECONOMIC STABILITY AND POVERTY REDUCTION

Achieving macroeconomic stability is an important step towards sustainable economic growth over the medium term, and hence lasting gains in poverty reduction. However, it is also important that stabilisation policies are seen to be consistent with and supportive of the overall poverty reduction strategy. The IMF have recently published new internal guidelines for administering the PRGF, to explain how the new facility fulfils the Fund's commitment to poverty reduction. A key objective will be to ensure that poverty reduction and the macroeconomic elements of the programme are fully integrated.¹²

Evidence suggests that economic growth is perhaps the single most important factor influencing poverty. It is seen to be a necessary, though not sufficient condition for poverty reduction. There is a strong positive association between national per capita income and national poverty indicators. For example, one recent study showed that the income of the bottom one-fifth of the population rose one-for-one with the overall growth of the economy, as defined by per capita GDP.¹³

Although the rate of economic growth will reflect the interaction of social, structural, and institutional factors, macroeconomic stability is an important step towards achieving sustained growth. Empirical evidence suggests that macroeconomic instability is generally associated with poor growth performance, and has a detrimental effect on private sector investment. Macroeconomic instability also hurts the poor. For example, inflation has a disproportionate effect on the poor, because they tend to hold their financial assets in the form of cash, and are less able to protect the real value of their assets than those who are better off.

An important issue is how best to cope with exogenous shocks to income. Developing countries may be subject to external shocks, such as volatile terms of trade, and variability in levels of development assistance. Ideally, permanent shocks should be accompanied by adjustment, while temporary shocks should be smoothed through (temporarily) higher deficits. However, this may be difficult where countries face constraints on borrowing, or find it hard to raise additional domestic revenue. Hence the budgetary process needs to iterate between the total level of resources on the one hand, and spending plans on the other, to ensure that overall stability is not compromised.

Countries which are able to maintain macroeconomic stability over a period of time are more likely to obtain medium-term commitments from donors, and more likely to access private sector capital markets on a sustainable basis. To reflect this, the IMF will introduce greater flexibility in its programmes to accommodate rising budget deficits on a temporary basis. This will happen where countries have sustainable macroeconomic and external debt positions in place, and where there is scope for productive public spending.

¹² IMF "Supporting Poverty Reduction Strategies: What's New in the IMF's Approach?", Press release, 7 September 2000; and IMF "Key Features of PRGF-supported Programs", 16 August 2000.

¹³ Dollar and Kraay 'Growth is Good for the Poor'. 2000

ANNEXES

I. Managing the UK's interests at the IMF

I.1 The Chancellor of the Exchequer is the UK's Governor of the IMF and is responsible for the management of UK interests at the Fund. The Chancellor exercises influence on IMF issues through:

- interventions at the spring and autumn meetings of the International Monetary and Financial Committee (formerly the Interim Committee);
- his plenary speech at the IMF/World Bank annual meetings;
- periodic meetings with the Managing Director of the Fund; and
- the UK's Executive Director at the Fund's Executive Board.

I.2 The Chancellor is Chairman of the International Monetary and Financial Committee (IMFC). This is the main advisory committee to the Board of Governors, and is detailed in a box in chapter 3.

I.3 The Governor of the Bank of England is the UK's Alternate Governor of the IMF and represents the UK at the IMFC. The Governor also participates in the spring and autumn meetings of the Fund. The Secretary of State for International Development is the UK Governor of the World Bank.

I.4 In September 2000, the IMFC benefited from a preparatory meeting of Committee Deputies. This meeting was held in London, and was chaired by Gus O'Donnell, Director of Macroeconomic Policy and International Finance at HM Treasury. The UK was represented by Ed Balls, Chief Economic Adviser to HM Treasury, who also represents the UK at meetings of G20 Deputies.

I.5 The management of the UK's interests in the ongoing work of the IMF is the responsibility of the UK Executive Director, Stephen Pickford. He is one of 24 Executive Directors. The Executive Board is the main decision-making body of the Fund, and normally meets three times a week.

I.6 HM Treasury coordinates UK policy advice on IMF issues and the UK's operational interests at the Fund. The Bank of England, the Department for International Development, the Foreign and Commonwealth Office, the Financial Services Authority, and other government departments and agencies, also work closely with the Treasury in providing advice on IMF issues. Within HM Treasury, the Macroeconomic Policy and International Finance Directorate is specifically responsible for preparing advice on the policy issues and specific country programmes that are brought before the Executive Board.

II. The UK's financial relationship with the IMF

II.1 The primary means of financing the IMF is through members' quotas. Each member of the IMF is assigned a quota, which is expressed in Special Drawing Rights (SDRs) and is equal to its subscriptions of capital to the IMF. A member's quota determines its voting strength in the IMF. Quotas also determine a country's access to IMF resources as well as the contribution that it makes to those resources.

II.2 Part of a member's quota subscription is normally payable in SDRs or specified usable currencies ("reserve assets"), and the remainder is payable in the member's own currency. When quotas are increased, 25 percent of each member's increase is normally paid in reserve assets. The balance is paid in the member's own currency, normally in the form of non-negotiable, non-interest-bearing notes (essentially promissory notes).

II.3 The difference between a member's quota and the IMF's holdings of its currency - called the reserve tranche - represents the resources the IMF has actually drawn upon. As the IMF cashes in the sterling notes and draws upon the UK's quota, the UK's reserve tranche rises.

II.4 The UK's quota is financed from the National Loans Fund (NLF) which is audited by the National Audit Office, and the accounts are laid before Parliament.

II.5 The UK's reserve tranche forms part of our reserves and as such, increases in its size do not constitute public expenditure. The UK could call on its reserve tranche at short notice in the event of balance of payments need.

II.6 The larger part of our reserve tranche is remunerated at the SDR interest rate. The remainder, around a third, is unremunerated. This is because part of our quota was made available to the IMF prior to the 1970s, before the IMF introduced the system whereby countries' reserve tranches are remunerated at the SDR interest rate.

II.7 At 30 September 2000, our unremunerated reserve tranche position stood at just under SDR 700 million (approximately \$908 million), compared with a remunerated reserve tranche position of just over SDR 2.305 billion (approximately \$2.99 billion).

Quota Review

II.8 The Fund must have adequate resources to maintain its effectiveness as a monetary institution addressing temporary balance of payments problems through support of sound adjustment policies. The primary means of financing the IMF is quotas.

II.9 The Fund's Articles of Agreement specify that a general review of quotas must take place at intervals of not more than five years. These periodic reviews ensure that the IMF has the resources that it needs to do its job. Following the 1998 review, the Executive Board authorized a panel¹⁴ of external experts to review the formulas used to guide the apportionment of quota increases resulting from general reviews, and the setting of new member countries' initial quotas. The report of the panel was submitted to management and the Executive Board in May 2000. The Board discussed the report in August 2000, and commissioned further work from IMF staff.

Special Drawing Rights

II.10 Special Drawing Rights (SDRs) are an international reserve asset created by the IMF and defined in terms of a basket of the dollar, the euro, the yen and the pound. The IMF has periodically created SDRs. When SDRs are created they are allocated to members in proportion to their quotas. The UK is currently allocated 1913 million SDRs but holds much less than this amount (our holding was just over 267 million SDRs as at September 2000). SDRs are interest bearing (the SDR interest rate is calculated as the average of short term interest rates on dollars, euros, yen and sterling). Members are credited with interest on their holdings of SDRs and pay interest on their allocation of SDRs at this rate.

Other Borrowing

II.11 Over the years the IMF has supplemented the quota system with other sources of Funding:-

- General Arrangements to Borrow (GAB) – These are long-standing arrangements under which the Group of Ten industrial countries stand ready to lend to the IMF to finance purchases that aim at forestalling or coping with a situation that could impair the international monetary system, The GAB currently amount to SDR 17billion and there is also an associated arrangement with Saudi Arabia for SDR 1.5billion. Since their establishment in 1962, these arrangements have been renewed every four or five years and have been invoked 10 times. The GAB was activated in June 1998, providing the Fund with \$8.4billion for lending to Russia (of which \$1.9billion was used). The UK participated in this facility, which was repaid by the IMF in March 1999 following the quota increase.
- New Arrangements to Borrow (NAB) – Since 1998 the Fund has had this new SDR 34billion facility at its disposal, which comprises of GAB members and a range of emerging market economies. It is intended that the NAB should replace the GAB as the primary financial resource for the Fund in the event that it needs additional liquidity. The UK has committed £3.5billion to this facility. The combined amount that can be drawn under the GAB and the NAB cannot exceed SDR 34billion. The NAB was first activated in December 1998, providing the Fund with \$12.7billion (of which \$1.4billion was used) in connection with the IMF programme for Brazil. As with the GAB, this has now been repaid in full.

¹⁴ The panel was set up in June 1999, and was chaired by Professor Richard Cooper, Harvard University

Cost of UK funding for the IMF during Financial Year 1999-2000

II.12 Although changes in the reserve tranche do not count as public expenditure, there is an opportunity cost to the UK arising from IMF membership. This is for three reasons. Firstly, some of the reserve tranche is not remunerated so we receive no interest on it to offset the cost of financing. Secondly, since the reserves tranche is denominated in SDRs the interest rate paid on the remunerated portion is based on the market rates for the currencies which make up the SDR basket (as is interest paid on GAB or NAB loans). This is because funding drawn upon by the IMF is denominated in SDRs and hence the interest rate paid on remunerated funding is based on the market rates for currencies which make up the SDR basket, whereas the UK Government's sterling borrowing costs are determined by sterling interest rates. Thirdly, the SDR/sterling currency mismatch can also give rise to exchange rate gains or losses.

II.13 In the UK's case, the mismatching is partly reduced because the UK holds many fewer SDRs than it has been allocated. This means exchange rate gains or losses on the sterling value of the UK's reserve tranche are partly offset by exchange rate gains or losses on its net negative SDR position.

II.14 During 1999-2000, the interest earned on the reserve tranche and on holdings of SDRs fell an estimated £73 million short of the interest the UK was charged on its SDR allocation and the cost of the sterling borrowing required to finance the reserve tranche. That portion of the interest charged on the SDR allocation which does not fund SDR holdings is assumed to offset the sterling cost of funding the net currency reserves.

II.15 Movements in the value of sterling compared to the SDR basket did, however, result in an exchange rate gain of £4 million. Hence the overall cost to the UK of funding the IMF was around £69 million in 1999-2000.

II.16 The interaction of the effects described above means that the overall cost to the UK of its IMF membership varies from year to year. Between the years 1997-98 and 1999-2000, the figure has averaged around £36million.

III. IMF liquidity position

III.1 The IMF's resource position strengthened considerably during financial year 2000. The demand for IMF resources declined from the high levels of financial year 1999, as global economic and financial conditions improved and investor confidence in many emerging market economies returned. A few member countries with large loans from the IMF – Brazil, Mexico, Korea and Russia – recovered in varying degrees from earlier financial crises and repaid SDR 19.6 billion in financial year 2000.

III.2 Total drawings from the General Resources Account during the financial year, excluding reserve tranche drawings, amounted to SDR 6.3billion, compared with SDR 21.4billion in the previous year.

III.3 The liquid resources of the IMF consist of usable currencies and SDRs held in the General Resources Account. Usable currencies, the largest component of liquid resources, are the currencies of members whose balance of payments and reserve positions are considered strong enough to allow their use in the quarterly financial transactions plan. The IMF's usable resources rose steadily throughout the financial year because repayments exceeded new drawings, new members were added to the financial transactions plan, and the IMF received some payments for Eleventh General Review Quota increases. At the end of September 2000, the IMF's usable resources reached \$146billion, an increase from \$129billion from a year earlier. Net uncommitted usable resources (usable resources less resources committed under current arrangements and considered likely to be drawn, and less working balances of usable currencies) also increased, although less steeply, to \$105billion (from \$87billion a year earlier).

III.4 As a result of these developments, the IMF's 'liquidity ratio' – defined as the ratio of IMF's net uncommitted usable resources to its liquid liabilities – increased to 179.4 percent at the end of September 2000 from 109.4 percent at the end of September 1999. This brings the ratio, which is used to judge the adequacy of resources available to meet potential demands from members, to levels that prevailed before the onset of the 1997 Asian Crisis, and significantly higher than the figure of just over 40 percent seen in 1998.

IV. IMF Lending facilities

Regular Lending Facilities

Stand-By Arrangements (SBA). Under an SBA, which is typically one to two years long, but can be as long as three years, a country carries out a programme that it has designed in consultation with the IMF staff to resolve balance of payments problems of a largely cyclical nature. The programme focuses on key macroeconomic policy measures and, to receive the financing, the member must meet performance criteria marking its successful implementation of the programme. The country is expected to repay the money it has borrowed over 2 to 4 years (with a period of 3 to 5 years for obligatory repayment) .

Extended Fund Facility (EFF). The IMF provides financial support to its members for longer periods under the EFF. Extended arrangements are designed to correct balance of payments difficulties that stem largely from structural problems and take longer to correct. A member requesting an Extended Arrangement outlines its goals and policies for the period of the arrangement, which normally runs for three years but can be extended for a fourth, and presents a detailed statement each year of the policies and measures it will implement over the next 12 months. The expected repayment period is 4 to 7 years (with a period of 4 to 10 years for obligatory repayment).

Special Lending Facilities and Policies

Supplemental Reserve Facility (SRF). In December 1997, the Executive Board established the SRF in response to the unprecedented demand for IMF assistance resulting from the Asian crisis. The SRF is intended to help member countries experiencing exceptional balance of payments problems created by a large short-term financing need resulting from a sudden and disruptive loss of market confidence. Financing under the SRF is provided in the form of additional resources under a Stand-By or an Extended Arrangement. Countries are expected to repay within 1 to 1 years of the date of each repurchase. The Board may, however, extend this repayment period by up to one year. Repayment must be made no later than 2 to 2.5 years after the drawing. An interest surcharge is levied on SRF financing to encourage early repayment.

Contingent Credit Lines (CCL). The CCL was established in 1999 for members pursuing strong economic policies to obtain IMF financing on a short-term basis, and is designed to prevent cases of contagion. It is the only IMF facility that is based on the principle of prequalification. The surcharge on the use of credit under the CCL is, at all times, 150 basis points lower than the surcharge that would be applicable under the SRF.

Compensatory Financing Facility (CFF). Formerly the Compensatory and Contingency Financing Facility (CCFF), the CFF provides timely financing to members experiencing a temporary shortfall in export earnings.

Concessional Lending Facility

Poverty Reduction and Growth Facility (PRGF). Programmes supported under the PRGF are expected to be based on a strategy designed by the borrowing country to reduce poverty and are formulated with the participation of civil society and developmental partners. The strategy, to be spelled out in a Poverty Reduction Strategy Paper produced by the borrowing country in cooperation with the IMF and the World Bank, describes the authorities' goals and macroeconomic and structural policies for the three-year programme.

Further information on the continued development of the PRGF is set out in section 4 of this report.

¹⁵ The concept of 'time based repurchase expectations' was introduced following the Executive Board's September 2000 review of facilities, with the intention of preventing the unduly long use of Fund resources

IV. IMFC Spring meeting communique

The International Monetary and Financial Committee held its inaugural meeting in Washington, D.C. on April 16, 2000, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Strengthening the IMF's Role in the Global Economy

2 The Committee's deliberations have taken place today against the background of a growing public debate about the directions in which the IMF and the international financial system should evolve to adapt to a rapidly changing economic environment. The debate also reflects a concern that the benefits the world economy is deriving from freer trade and more integrated and deeper international capital markets are not reaching everyone, especially in the developing countries. The Committee reaffirms its strong support for the Fund's unique role as the cornerstone of the international monetary and financial system and its ability, by virtue of its universal character, to help all of its members. With the support of all its members, the IMF has undergone continuous change to equip itself better to assist members to build the strong macroeconomic and institutional underpinnings required for international financial stability and the broader sharing of the benefits and opportunities of an open world economy. But more needs to be done, and the Committee therefore pledges to continue to work toward making the IMF more effective, transparent, and accountable.

World Economic Outlook

3 The Committee welcomes the rapid recovery of the world economy in 1999 and the prospect of even stronger growth in 2000. Global economic and financial conditions have improved markedly during the past year, with growth picking up in most regions of the world. Moreover, the acceleration of global growth has occurred without a significant increase in underlying inflation. This improvement has, in most instances, also reflected the pursuit of sound macroeconomic policies and continuing structural reforms in many countries, both advanced and developing. In particular, the Committee notes that:

- The expansion in the United States continues at a remarkable pace. Monetary and fiscal policies will need to remain prudent, and fiscal surplus policies should not be relaxed. National saving also needs to increase further;
- Growth has also strengthened in western Europe and it is important that this is sustained. Monetary policy should remain supportive of growth through its focus on maintaining low inflation. Countries should also continue to pursue prudent fiscal policies. Stronger growth provides an opportunity to press ahead with fiscal reforms necessary to ensure the long-term sustainability of public finances, and to continue with further reforms of labor, capital, and product markets to ensure that the pace of growth is sustained; and
- There are some positive signs in Japan. However, a durable economic recovery has yet to be secured and deflationary concerns still remain. It is important that macroeconomic policies continue to be supportive until recovery in private demand is firmly established; structural reforms, especially through sustained financial and corporate sector restructuring, will be crucial in boosting confidence and paving the way for a return to sustained growth.

4 While welcoming the increases in oil production that will help stabilize oil prices and support continuing non-inflationary growth in global output, the Committee notes that the current outlook is still vulnerable in several respects. In particular, substantial differences in economic performance continue to contribute to external imbalances. Against this background, the Committee stresses the importance of the policy priorities outlined above, which would help to promote a smooth transition toward a more sustainable and balanced pattern of economic growth.

5 The Committee notes that the strong performance in North America and the increase in growth in western Europe have provided a more supportive environment for growth elsewhere in the world:

- in Asia, China and India have continued to grow rapidly; and economic recovery in the crisis-affected countries has gained significant momentum. In most countries, macroeconomic policies should still be directed toward providing support for recovery. However, in the countries where recovery is most advanced, policies should turn to strengthening the conditions for sustainable growth. The Committee urges all countries to maintain the momentum behind their structural reform efforts;
- in Latin America, the downturn in 1999 was generally milder than initially foreseen, and signs of a broad-based recovery are already evident in the context of further declines in inflation. However, further fiscal consolidation remains a priority, especially in those cases where external financing requirements remain large;
- Russia's economic performance has improved, with economic growth attributable in part to higher oil prices and the 1998 devaluation, as well as macroeconomic policies. Growth in Russia will be sustained only if major strides are made to strengthen institutions, especially the rule of law, and to create an attractive environment for domestic and foreign investors, thus tackling the issue of capital flight. Economic conditions are also strengthening in other transition economies; and
- the recent recovery in oil prices and in some other commodity markets are providing support to many countries' own efforts in the Middle East and Africa. These countries have an opportunity to accelerate economic reforms and diversification. Other countries have performed less well for a variety of reasons, including inappropriate policies, unfavorable weather conditions, or continued conflict. The Committee encourages these countries to strengthen their adjustment efforts with the help of the international community.

6 The Committee reiterates the critical importance of open and competitive markets as a key component of efforts to sustain growth and stability in the global economy and to reduce poverty. Improving access to industrial country markets for products of developing countries will be crucial to support their reform efforts. The Committee welcomes the initiation of WTO negotiations in agriculture and services, and supports the early launch of a new round of multilateral trade negotiations, which would bring benefits to all countries, including the poorest. The Committee calls on the IMF to continue to work with the World Bank, the WTO, and other interested parties to improve the effectiveness of trade-related technical assistance and to build institutional capacity. It encourages the Fund to give appropriate emphasis to trade policy reforms in its policy advice to all its members, including under Fund-supported programs, and in country poverty reduction strategies.

Review of Fund Facilities

7 The Committee agrees that the Fund's financial operations should continue to adapt to the changing nature of the global economy, including the rapid growth and integration of international capital markets. Against this background, the Committee welcomes the progress that has been made in reviewing the Fund's non-concessional facilities. It endorses the Board's decision to simplify the array of IMF facilities by eliminating four facilities—the Currency Stabilization Fund, support for commercial bank Debt and Debt Service Reduction, the Buffer Stock Financing Facility, and the contingency element of the Compensatory and Contingency Financing—Facility and by streamlining the Compensatory Financing Facility.

8 The Committee has set out a number of principles that should underpin this review, including the need to preserve the Fund's ability to provide and catalyze financial support to all member countries according to individual country circumstances, and with due consideration of social implications. The Fund's facilities should encourage countries to adopt strong ex ante measures to prevent crises, including, where appropriate, observance of internationally agreed codes and standards, and the maintenance of good relations with private creditors. The Fund must retain the ability to help countries respond quickly and effectively to short-run balance of payments problems. In defined circumstances where balance of payments difficulties are expected to be of a long-term nature, the Fund will also need to be able to support reforms that deal with structural problems, while encouraging countries to move toward sustainable access to, and reliance on, private capital. The Fund must also be able to respond rapidly and on an appropriate scale to crises of capital market confidence, and it should do so on terms that mitigate moral hazard and encourage rapid repayment. In this context, the IMF should take appropriate steps to involve the private sector in forestalling and resolving crises.

9 With these principles in mind, the Committee asks the Executive Board to continue its review of these issues and, in particular, to consider the policies on the maturity, pricing structure, and other aspects of existing facilities, with a view to ensuring that they provide the right incentives, in particular by enhancing the effectiveness of the CCL, without compromising the initial eligibility criteria, and by avoiding unduly prolonged use of resources provided under the SBA and EFF. The Committee asks the Executive Board to secure rapid progress and to report at the Committee's next meeting.

Safeguards and Misreporting

10. The Committee affirms that, while episodes of misreporting of information to the Fund or allegations of misuse of Fund resources have been few, such incidents are nonetheless extremely serious and undermine the trust that binds the Fund and its members, as well as public confidence in the Fund. The Committee therefore welcomes the Board's adoption of a strengthened framework of measures to safeguard the use of Fund resources, pursuant to the Interim Committee's call in September 1999, and to deter misreporting and misuse of Fund resources. The Committee stresses that the forceful application of the strengthened framework is critical to enhancing the integrity of the Fund's financial operations.

11 The Committee especially welcomes the Board's decision to adopt the new framework for the conduct of safeguards assessments. It also welcomes the requirement that all countries making use of Fund resources will publish annual central bank financial statements that are independently audited in accordance with internationally accepted standards. The Committee also welcomes the decisions to broaden the application of tools for addressing misreporting when it comes to light, including by applying the Guidelines on Misreporting to prior actions and other essential information, lengthening the two-year limitation period, and making public the relevant information in cases of misreporting, in line with the Board's decision. It agrees that the effectiveness of this policy be reviewed after 12 to 18 months.

Private Sector Involvement

12 The Committee underscores the importance of prevention as the first line of defense against crises. Countries participating in international capital markets and their private creditors should seek, in normal times, to establish a strong, continuous dialogue. Collective action clauses could have an important role to play in facilitating orderly crisis resolution.

13 The IMF has an important role to play with regard to crisis resolution. The Committee agrees that the approach adopted by the international community should provide for flexibility to address diverse cases within a framework of principles and tools, and be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access.

14 In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly. In some cases, emphasis should be placed on encouraging voluntary approaches, as needed, to overcome creditor coordination problems. In other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile.

15 In those cases where debt restructuring or debt reduction may be necessary, the Committee agrees that IMF-supported programs should put strong emphasis on medium-term sustainability and should strike an appropriate balance between the contributions of the private external creditors and the official external creditors, in light of financing provided by international financial institutions. The Committee notes the need to aim for fairness in the treatment of different classes of private creditors, and that private sector involvement should proceed on the basis that no class of creditors should be considered inherently privileged. The IMF should review the country's efforts to secure needed contributions from private creditors in light of these considerations, as well as medium-term sustainability. The responsibility for negotiation with creditors is placed squarely with debtor countries. The international financial community should not micromanage the details of any debt restructuring or debt reduction negotiation.

16 The Committee agrees that the IMF should consider whether private sector involvement is appropriate in programs supported by the Fund. In this regard, the Committee also agrees on the need to provide greater clarity to countries about the terms and conditions of their programs. When all relevant decisions have been taken, the Fund should set out publicly how and what policy approaches have been adopted.

Review of Surveillance; Links between Surveillance and Standards and Codes

17 The Committee welcomes the recent internal review of Fund surveillance, which built upon the June 1999 external evaluation. Progress is being made in adapting surveillance to changing global realities and to strengthening it in key areas, including financial sector issues, and external debt and capital account developments. The Committee also welcomes the sharper focus on exchange rate policies, and their consistency with underlying macroeconomic and other policies, and institutional arrangements. Issues outside the traditional core areas of surveillance should generally be considered when they are likely to have a significant impact on macroeconomic and financial stability. The Committee urges that the Fund improve further its multilateral surveillance by taking account of international implications of national policies. The Committee notes the importance of the provision of comprehensive, timely, high quality, and accurate information to the Fund in line with the SDDS and GDDS, and calls upon the Fund to help and encourage members in adopting and meeting these standards.

18 The Committee agrees that the Fund's focus on financial vulnerabilities must be strengthened further, and supports vulnerability analyses in IMF surveillance. To this end, the Committee: (i) encourages the further development and integration of indicators of country financial vulnerability in the IMF's ongoing surveillance and operational work; (ii) calls on the IMF, in collaboration with the World Bank, to complete promptly guidelines on sovereign debt management; and (iii) asks the Board to work further on how to incorporate into surveillance and technical assistance the work under way on the policy on official reserves.

19 The Committee welcomes the work of the Fund and the Bank in preparing Reports on the Observance of Standards and Codes (ROSCs) and in implementing the pilot Financial Sector Assessment Program (FSAP) that could serve as the primary basis for enhancing the Fund's monitoring of the financial sector in the context of Article IV surveillance through Financial System Stability Assessments (FSSAs). It endorses the decision to continue the FSAP and expand the coverage to 24 countries on a voluntary basis for the coming year. The Committee looks forward to a report on the progress with these programs at its next meeting.

20 The Committee recognizes the importance of adherence to international standards and codes of good practice in improving the policy environment and in reducing countries' macroeconomic and financial vulnerability. It reaffirms that the adherence to such codes is voluntary. The Committee agrees that the Article IV surveillance process provides the appropriate framework within which to organize and discuss with national authorities the implications of assessments of adherence to standards and codes, and calls upon the Executive Board to agree on the modalities. The Committee also recognizes the possible need for technical assistance to help meet relevant standards. Fund surveillance will be the principal mechanism through which the results of many initiatives under way in the IMF and elsewhere to strengthen the international monetary system will come together, including in the areas of standards and codes, financial system assessments, data provision, and transparency. This will pose new challenges for the Fund, especially on how to draw on the work and special expertise of other institutions in its surveillance. In this regard, the Committee welcomes the work that has been done by the Fund—in collaboration with the World Bank and other relevant bodies—to encourage the adoption of standards and codes. It looks forward to the results of the pilot exercise on the preparation of ROSCs, and encourages the publication of ROSCs on a voluntary basis. The Committee encourages the Executive Board to continue its work on how to incorporate into surveillance the results of these various initiatives, and looks forward to a review of progress at its next meeting.

21 The Committee welcomes the progress made in the Fund and other fora in developing and strengthening standards and codes for data dissemination; for transparency in fiscal, monetary, and financial policies; for banking supervision; and for securities and insurance regulation. It urges the Fund to continue with this work, including through outreach activities, and with the provision of technical assistance.

22 The Committee takes note of the reports of the Financial Stability Forum (FSF) Working Groups on highly leveraged institutions, offshore financial centers, and capital flows, and the report on standards and codes. It welcomes the work done by the FSF, and requests the Executive Board to undertake an assessment of the recommendations relevant to the Fund.

Transparency and Accountability

23 The Committee reiterates the importance it attaches to greater transparency in policy making in improving the functioning of national economies as well as the international financial system. It also underscores the importance of enhanced transparency and accountability of the international financial institutions themselves. In this regard, the Committee welcomes continuing progress in a number of areas:

- the widespread release—currently in 80 percent of cases—of Public Information Notices following Article IV consultations and of letters of intent and other program documents underpinning Fund financial programs; and the issuance of Chairman’s statements following Executive Board discussions of use of Fund resources;
- the voluntary participation of 60 countries (compared with the initial target of 20) in the pilot project for the release of Article IV staff reports;
- the expanded publication of information on the Fund’s liquidity position, members’ accounts with the Fund, and the Fund’s quarterly financial transactions plan;
- the systematic publication of policy documents in a wide range of areas to encourage public comment and discussion;
- the publication, under the pilot study for the preparation of ROSCs, of modules for 11 countries, and the modules for an additional 20 countries now under preparation; and
- the publication of the Executive Board’s Work Program.

24 The Committee encourages further actions to make the policies of the Fund, and members’ policies, more transparent without compromising the Fund’s role as confidential advisor.

25 The Committee welcomes the decision by the Fund to establish an independent evaluation office, which will complement the Fund’s ongoing internal audit and self-evaluation activities. It urges the Executive Board to agree on the terms of reference, structure, staffing, and operating procedures, and to report back to the Committee at its next meeting. The Committee looks forward to regular reports on the activities of the office to future IMFC meetings.

The HIPC Initiative and Poverty Reduction and Growth Strategies

26 The Committee notes the recent progress in implementing the enhanced HIPC Initiative, which is aimed at providing faster, deeper, and broader debt relief and strengthening the link between debt relief and poverty reduction. It urges all those with a stake in the HIPC Initiative to work for faster and effective implementation, and to give the HIPC process the highest priority so that as many countries as possible can reach the decision point by the end of the year. The Committee welcomes the establishment of a Bank/Fund Joint Implementation Committee to facilitate implementation of the HIPC Initiative and the poverty reduction strategy process. In this connection, it welcomes the decision to provide regular reports on progress in country cases to the two Executive Boards.

27 The Committee welcomes the progress made in developing country-owned poverty reduction strategies as the framework for Fund and World Bank concessional lending and for linking debt relief under the enhanced HIPC Initiative to concrete poverty reduction programs and growth strategies, so as to ensure that the resources freed are directed to key poverty reduction measures. The Committee urges all countries involved to move ahead as quickly as possible with the preparation of Poverty Reduction Strategy Papers (PRSPs) in a participatory manner, integrating priority measures for poverty reduction and structural reforms within a growth-oriented macroeconomic framework.

28 The Committee reiterates that macroeconomic stability, transparent management of public resources, and good governance are essential for achieving sustainable growth and poverty reduction. The Fund has a critical role to play in helping countries adopt and implement appropriate macroeconomic policies. The Committee welcomes the clear delineation of the cooperative but distinct roles of the Fund and Bank, and notes that the Fund will rely on the Bank to lead in helping countries to develop policies to combat poverty and improve social conditions.

29 The Committee reaffirms the importance of the principle of full participation in the HIPC Initiative by all creditors. In this respect, it calls on all bilateral creditors to play their part, while recognizing the need for flexibility in exceptional cases. It stresses that debt relief can be effective only if it complements and reinforces sound policies implemented by HIPC countries and leads to an increase in resource flows. It welcomes the decisions adopted by the Executive Board, and the actions taken by many members, to ensure the financing for the Fund's participation in the HIPC Initiative and for the Poverty Reduction and Growth Facility (PRGF). It encourages all members and multilateral institutions to complete this process as soon as possible.

Tribute to Michel Camdessus

30 The members of the Committee unanimously pay tribute to Mr. Michel Camdessus for the vision, skill, and energy with which he led the International Monetary Fund as Managing Director through 13 years of unprecedented challenges. Over this period, international monetary and financial cooperation was tested by the growing openness of the world economy; the rapid spread of market economy principles throughout much of the world; financial crises of unexpected virulence and scope; and the growing danger of marginalization of the poorest economies. Under his leadership, the IMF moved on many fronts—strengthening surveillance; launching greater openness and transparency; and introducing innovative financial facilities to help resolve the debt crisis of the 1980s and the financial crises of the 1990s, and, through the establishment of the Enhanced Structural Adjustment Facility (now the Poverty Reduction and Growth Facility), to support and sustain the integration of the Fund's low-income members into the world economy.

The members of the Committee wish to record their deep appreciation of Mr. Camdessus' many contributions, which were always marked by his personal enthusiasm and optimism, and his characteristic blend of commitment to financial discipline with devotion to alleviating the hardships of the most vulnerable.

31 The Committee warmly welcomes the appointment of Mr. Horst Köhler as the new Managing Director, and expresses its deep gratitude to Mr. Stanley Fischer for his stewardship of the Fund in the interim.

32 The next meeting of the IMFC will be held in Prague on September 24, 2000.

V. The IMFC annual meeting communique

1 The International Monetary and Financial Committee held its second meeting in Prague on September 24, 2000, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. It welcomes Mr. Horst Köhler as the new Managing Director and looks forward to working with him on the continuing reform of the Fund and the strengthening of the international financial architecture.

World Economic Outlook

2 The Committee welcomes the strengthening of global economic growth this year to the highest rate in twelve years. Economies in all major regions of the world have grown, and inflation remains generally under control.

3 While the overall outlook is positive, the Committee remains mindful of the significant remaining risks associated with the continuing economic and financial imbalances in the global economy. These potential challenges include imbalances in external accounts and the possible risk from misalignments in exchange rates and high levels of equity valuations in the major currency areas. The Committee considers that it will therefore be important to remain vigilant against inflationary pressures in the United States, and that national savings should increase; to pursue policies in Japan that are strongly supportive of self-sustained domestic demand-led recovery; and to intensify the momentum of growth-supporting structural reforms in the European Union and in other advanced countries. In almost all developing and emerging market countries, continued progress with structural reforms—in particular through strengthening their financial sectors—is required to strengthen prospects for sustained economic growth. The Committee also expresses concern that, despite the strength of the global recovery, poverty remains unacceptably high, and many poor countries continue to face serious economic problems.

4 The Committee welcomes the gradual improvement in the last year in the terms and conditions of market access for emerging market countries, reflecting the better fundamentals in these markets. However, flows remain below pre-crisis levels, at higher spreads, and continue to show significant volatility, and market access remains extremely limited for some emerging markets.

5 The Committee is concerned that current oil prices, if sustained, could hamper global growth, add to inflationary pressures, and adversely affect prospects for many countries. It notes in particular the effect on the poorest countries and those highly dependent on oil imports. The Committee agrees on the desirability of stability in oil markets around reasonable long-term prices. It notes the recent U.S. decision to mobilize reserves and notes that some other industrial countries may be in a position to examine the possibility of doing so to help achieve greater stability. The Committee welcomes the steps the oil-producing countries have taken this year to increase production and calls on them to take further steps to create conditions in oil markets conducive to healthy global growth. The Committee looks forward to improved dialogue between oil producers and consumers to promote greater oil market stability.

6 The Committee notes that, in the ten years since the launch of the transition to market economies in eastern Europe and the former Soviet Union, much has been achieved. But the process has been difficult and remains far from complete, and progress has varied across countries. The Committee underlines that a key lesson from this experience is that transition economies that have made the greatest progress in establishing macroeconomic stability and implementing structural and institutional reforms have also achieved the best economic performance.

The Future Role of the IMF

7 The Committee strongly supports the objective of making globalization work for the benefit of all. In this respect, it endorses the Managing Director's vision of the future role of the IMF, and looks forward to working with him on continuing reform of the Fund and strengthening the international architecture. While each country's own actions will inevitably be the most important determinant of its economic progress, all members of the international community have essential roles in supporting and facilitating these individual efforts. The international community must place renewed emphasis on promoting broadly-shared prosperity, sustained growth, and poverty reduction. With its broad mandate and universal membership, the Fund, in partnership with the World Bank, is uniquely placed to serve its members, including the poorest countries, by contributing to this global effort.

8 The Committee notes the advances in applying the lessons of recent financial crises to the work of the IMF and the policies of its members. Many concrete steps have been taken or are under way to improve the functioning of the international financial system, and to strengthen its capacity for preventing and managing financial crises. As a result, the international community has made progress toward dealing with difficult situations and managing their external repercussions.

9 But continued efforts for change will be necessary. The Committee calls upon the IMF, in particular, and the international community, as a whole, to continue to strengthen their efforts to reduce vulnerability and to avoid crises, and when crises do occur, to reduce their spillover effects. These efforts will need to focus on:

- broadening and strengthening the Fund's surveillance of the domestic economic policies of all members and of the international financial system, including regional dimensions;
- continued promotion, development, and voluntary implementation, in a fully participatory way, of internationally agreed codes and standards, in cooperation with other bodies, as appropriate, supported by enhanced technical assistance; and
- constructive engagement of the private sector by the official sector.

10. The Committee reiterates that the Fund has a central role to play in bringing together the efforts of other global institutions to strengthen the international financial system in helping to ensure that all countries can benefit from globalization. It agrees that the Fund can best contribute to this global effort and strengthen its overall effectiveness by:

- continuing to deepen its collaboration with other agencies and bodies. In that regard, it welcomes the initiatives of the Managing Director and the President of the World Bank to strengthen cooperation and complementarity between the two institutions;

- promoting, within the context of the Fund's mandate, international financial and macroeconomic stability and growth of member countries, the Fund must sharpen the focus of work in its core areas of responsibility: macroeconomic stabilization and adjustment; monetary, exchange rate, and fiscal policies and their associated institutional and structural aspects; and financial sector issues, especially systemic issues relating to the functioning of domestic and international financial markets.

II The Committee stresses the importance of national ownership of Fund-supported programs for their sustained implementation. The Committee urges the Executive Board to take forward its review of all aspects of the policy conditionality associated with Fund financing in order to ensure that, while not weakening that conditionality, it focuses on the most essential issues; enhances the effectiveness of Fund-supported programs; and pays due respect to members' specific circumstances and their implementation capacities.

The Poverty Reduction and Growth Facility (PRGF) and the enhanced Initiative for Heavily Indebted Poor Countries (HIPC)

I2 The Committee affirms the Fund's enhanced role in poor countries. It considers that a lasting breakthrough in combating world poverty can only be achieved if the poorest countries are able, with the support of the international community, to build the fundamentals for sustained growth. Macroeconomic stability and structural reform will provide the conditions for private sector investment and growth and will, over time, allow countries to access international capital markets. The Committee also considers that international trade is critical for development and poverty reduction. To help ensure that the fruits of globalization are shared by all, it will be crucial that access of developing countries, particularly the poorest, to industrial country markets continues to improve. Industrial countries should increase their official development assistance. The Committee encourages developing countries, for their part, to follow policies consistent with domestic macroeconomic stability and competitiveness in international markets; continue to reduce trade barriers; and implement other appropriately sequenced outward-oriented reforms that promote poverty reducing growth, investment in human capital, particularly health and education, and development.

I3 The PRGF provides an essential framework, together with complementary assistance from the World Bank, for supporting countries' own growth strategies and for enabling HIPC debt relief to be translated into poverty reduction.

14 The Committee endorses the Progress Reports on the HIPC Initiative and Poverty Reduction Strategy Papers (PRSPs). It welcomes the progress made in developing country-owned poverty reduction strategies, including through the preparation of PRSPs, which now underpin the work of the Fund and World Bank in low-income countries. It also welcomes the progress in implementing the enhanced HIPC Initiative, and the commitment of the Fund and the Bank to do everything possible to bring 20 countries to their Decision Point by the end of 2000 to ensure that debt relief is provided in the context of a strong commitment to growth and poverty reduction. Recent shocks in terms of trade must not jeopardize this objective. The Fund, through its facilities, may need to respond flexibly to the needs of members that arise from a sustained period of high oil prices. Our efforts should be supported by increased technical assistance. The Committee urges members to work together and meet their commitments to full financing of the HIPC Initiative and the PRGF as soon as possible. It also urges all creditors to participate in the HIPC framework, while recognizing the special needs of particular creditors. The Committee looks forward to a productive discussion of the enhanced HIPC Initiative and the PRSP process at its joint meeting with the Development Committee.

Strengthening the International Financial Architecture and Reform of the Fund

Review of Fund Facilities

15 Following the Executive Board's wide-ranging review of the IMF's nonconcessional financial facilities, the Committee welcomes the agreement reached on modifications that are intended to enhance the precautionary nature of the Contingent Credit Line (CCL) and to preserve the revolving nature of the Fund's resources.

- The CCL has been modified, within its existing eligibility criteria, to make it a more effective instrument for preventing crises and resisting contagion for countries pursuing sound policies.
- The terms of stand-by arrangements and the Extended Fund Facility (EFF) have been adapted to encourage countries to avoid reliance on Fund resources for unduly long periods or in unduly large amounts.
- It has been reaffirmed that the EFF should be confined to cases where longer-term financing is clearly required.
- It has been agreed that enhanced post-program monitoring could be useful, especially when credit outstanding exceeds a certain threshold level.

Enhancing Fund Surveillance, and Promoting Stability and Transparency in the Financial Sector

16 The Committee considers that Fund surveillance should be strengthened further and welcomes the recent initiatives in a range of areas. It reaffirms the role of the Article IV process as the appropriate framework within which to organize and discuss with members the results of work in these areas. Strengthened surveillance will help the Fund and its members to identify vulnerabilities and to anticipate threats to the financial stability of member countries. In this respect, it welcomes the continuing efforts to improve the Fund's understanding of its members' economies; the quality and availability of economic and financial data;

Financial System Stability Assessments (FSSAs) derived from the joint Fund-World Bank Financial Sector Assessment Program (FSAP); Reports on Observance of Standards and Codes (ROSCs); and vulnerability indicators and early warning systems. It welcomes the joint Bank-Fund work on debt management guidelines, as well as the Fund's work on sound reserves management practices, and its role in assessing offshore financial centers.

17 The Committee recognizes that the Fund has to play its role as part of the international efforts to protect the integrity of the international financial system against abuse, including through its efforts to promote sound financial sectors and good governance. It asks that the Fund explore incorporating work on financial abuse, particularly with respect to international efforts to fight against money laundering, into its various activities, as relevant and appropriate. It calls on the Fund to prepare a joint paper with the World Bank on their respective roles in combating money laundering and financial crime, and in protecting the international financial system, for discussion by their Boards before the Spring meetings and asks them to report to the Spring IMFC/Development Committee meetings on the status of their efforts.

18 The Committee is encouraged by the experience so far in preparing ROSCs and looks forward to the review later this year of the experience with assessing the implementation of standards. It notes their crucial role in helping countries to improve economic policies, identifying priorities for institutional and structural reform, and in promoting the flow of important information to markets. The Committee looks forward to the next review of the FSAP. It encourages members to participate in these initiatives.

19 The Committee notes that three issues at the core of the Fund's mandate also require further consideration: exchange rate arrangements; the sequencing of financial sector development and capital account liberalization; and the monitoring and analysis of developments in international capital markets. The Committee encourages the Fund to deepen its work on international financial markets, including by improving its understanding of market dynamics and cross-border capital flows. It also urges the Fund to continue exploring ways of engaging more constructively the private sector on these matters, and welcomes the formation of the Capital Markets Consultative Group.

20 In the context of ongoing efforts to enhance the transparency and openness of the Fund, the Committee welcomes the Executive Board's agreement to adopt a general policy of voluntary publication of Article IV and use of Fund resources staff reports and other country papers. It encourages members to move in principle toward publication of these documents.

Private Sector Involvement

21 The Committee endorses the report by the Managing Director on the involvement of the private sector in crisis prevention and management. It welcomes the progress on developing a framework for involving private creditors in the resolution of crises. The Committee notes that this approach strikes a balance between the clarity needed to guide market expectations and the operational flexibility, anchored in clear principles, needed to allow the most effective response in each case. The Committee notes that Fund resources are limited and that extraordinary access should be exceptional; further, neither creditors nor debtors should expect to be protected from adverse outcomes by official action.

22 The Committee agrees that the operational framework for private sector involvement must rely as much as possible on market-oriented solutions and voluntary approaches. The approach adopted by the international community should be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access. In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly. The Committee agrees that reliance on the catalytic approach at high levels of access presumes substantial justification, both in terms of its likely effectiveness and of the risks of alternative approaches. In other cases, emphasis should be placed on encouraging voluntary approaches, as needed, to overcome creditor coordination problems. In yet other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile. This includes the possibility that, in certain extreme cases, a temporary payments suspension or standstill may be unavoidable. The Fund should continue to be prepared to provide financial support to a member's adjustment program despite arrears to private creditors, provided the country is seeking to work cooperatively and in good faith with its private creditors and is meeting other program requirements. The Committee urges progress in the application of the framework agreed in April 2000, and in further work to refine the analytical basis for the required judgments, and it looks forward to a progress report by its next meeting.

Good Governance and the Fund

23 The Committee views with concern a number of recent cases of misreporting to the Fund and stresses the importance of the steps being taken to improve the reliability of the information the Fund uses. It welcomes the application of the new safeguards assessment procedure to all new Fund arrangements, which will provide assurances of adequate control, reporting, and auditing procedures in borrowing countries.²⁴ The Committee strongly welcomes the Executive Board's decision to establish an independent evaluation office (EVO), including the agreement to publish promptly its work program, and the strong presumption that its reports would be published promptly. The creation of this office will help the Fund to improve its future operations, and will enhance its accountability. It urges that the EVO become operational before the Spring 2001 meeting of the IMFC, and looks forward to receiving regular reports on the EVO's work.

25 Quotas should reflect developments in the international economy. The Committee takes note of the Executive Board discussion of the work of the quota formulae group, and looks forward to the Board's continued work on this issue.

26 The Committee takes note of the work of the Working Group to Review the Process of Selection of the Managing Director, which is being carried out in tandem with similar work in the World Bank on the Process of Selection of the President, and notes that the two groups will report together.

27 The Committee considers that the most valuable asset of the IMF is its outstanding staff, and the Committee highly values the staff's professionalism and dedication in executing the responsibilities of the Fund effectively and efficiently.

28 The Committee expresses its sincere appreciation for the excellent hospitality and support provided by the Czech authorities and the people of the Czech Republic.

Next Meeting of the Committee

29 The next meeting of the IMFC will be held in Washington, D.C. on April 29, 2001.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE ATTENDANCE

September 24, 2000

Chairman
Gordon Brown

Managing Director
Horst Köhler

Address to the Board of Governors by the new Managing Director

(Address by Horst Köhler Chairman of the Executive Board and Managing Director of the International Monetary Fund, to the Board of Governors of the Fund, Prague, September 26, 2000).

Mr Chairman, Governors, ladies and gentleman: it is with great pleasure that I join in welcoming you, on behalf of the IMF, to the 2000 Annual Meetings. We are privileged today to have President Havel with us. I would like to express my gratitude to him, to the government and people of the Czech Republic, and to the citizens of the beautiful and historic city of Prague, for their warm hospitality as hosts of these meetings.

This Annual Meeting takes place at the end of a decade of transition and at the turn of the millennium. As we heard from President Havel, Prague has always been a center of creative encounters and spiritual development. Even in the darkest hours of its history, this city never lost its dignity. It was here, too, that – inspired by Vaclav Havel – freedom and democracy threw off their chains. This is a place from which hope and new perspective originate. I could not have wished for a better location for an Annual Meeting at the beginning of the new millennium, and for my first Annual Meeting.

Governors, I am deeply honoured by your trust and support in appointing me as Managing Director of the IMF. Your words of encouragement during these meetings have been overwhelming and I thank you for that. Since joining the IMF five months ago, I have come to appreciate its great strengths – the professionalism and dedication of the staff and my management colleagues; the depth and quality of discussions in the Executive Board; the trust that is placed in the IMF by its membership. And I greatly appreciate the spirit of close partnership I have experienced during these past months in working with Jim Wolfensohn and his colleagues at the World Bank.

I pay tribute to my predecessor Michel Camdessus who led the Fund with skill and compassion over a long and often difficult time. Throughout his tenure Michel Camdessus adapted the Fund to new developments, and I want to build on his accomplishments. I would also like to thank Stan Fischer for his outstanding job in leading the Fund as Acting Managing Director during the interregnum period.

Mr Chairman, I see two major challenges to which the membership of the IMF must respond:

First: international private capital flows have become a major source of growth, productivity and job creation. But they can also be a source of volatility and crisis. The crises of 1997/98 have heightened the awareness that the stability of the international financial system is an important international public good.

Second: ten years after the end of the Cold War, there are more opportunities than ever to promote a better world. Ideological divides have faded, and new technologies and the expansion of the market place have opened new horizons for shared prosperity. But at the beginning of the new millennium we are also aware of huge unsolved problems. The most pressing of these is poverty, which is becoming a major threat for political stability in the world.

In search of answers to these challenges, I would like to begin with a reflection by the philosopher Karl Popper, who wrote in 1991: "The open future contains unforeseeable and morally quite different possibilities. So our basic attitude should not be 'what will happen'? but 'What should we do to make the world a little better?.' "Karl Popper also said: "All life is problem solving". This, if I may say so, is also my approach and how I see my role as Managing Director of the IMF.

In my vision the IMF should:

- Strive to promote sustained non-inflationary economic growth that benefits all people of the world;
- Be the center of competence for the stability of the international financial system;
- Work in an complementary fashion with other institutions established to safeguard global public goods; and
- To be an open institution, learning from experience and dialogue, and adapting continuously to changing circumstance.

In this vision, I see the IMF as an active part of the workforce to make globalization work for the benefit of all. This vision builds on an enhanced partnership with the World Bank, based on a clear sense of the complementarities of our two institutions which Jim Wolfensohn and I have outlined in a recent statement to our Boards and staffs.

And it is with humility that I welcome President Havel's reminder to us to reflect about the broader dimension of the task to make globalizaiton work for the benefit of all: to search for new sources of a sense of responsibility for the world. I fully share his appeal that we need universally shared moral standards. Indeed, a global economy needs a global ethic (Hans Kung).

I am aware of the critical debate about globalization, and many questions raised have to be of concern to all of us. But I also want to be clear: if the IMF did not exist already, this would be the time to invent it. More than ever, globalization requires cooperation, and it requires institutions which organize this cooperation. Its 182 members make the IMF a truly global institution and the cooperative nature of this institution is an invaluable asset. We should all seek to preserve and strengthen this asset. Strengthening it requires trust in cooperation. That means:

- Trust that the interests of all members are taken into account and, equally,
- Trust that each member lives up to its own responsibilities.

This means that members need to listen to each other, and that the Fund should see itself as a partner to its members and as a provider of help for self-help. And it means that the Fund's mandate is directed to promoting the international common good.

With this in mind I felt it very important to use a good part of my first months in office to visit a wide range of member countries, especially in Latin America, Asia, and Africa. My impression from these visits is:

- First: private initiative and democracy are spreading throughout the world. A fair judgement of the IMF should acknowledge that the Fund has contributed to this positive fundamental trend in the world.
- Second: overall, there is broad recognition within developing and emerging market countries that there are often serious homemade problems, including poor governance, corruption, and armed conflicts. And that the main responsibility for tackling these problems lies with the countries themselves.
- Third: I heard a lot of critical comments about the IMF. There is obviously a need for further change. But, on the whole, I was left in no doubt that the emerging market and developing countries value the Fund and that they strongly wish to continue working with it.

Economic growth is not everything, but without growth we get nowhere. Growth requires innovation, adaptation, and reform as permanent features of societies. To a remarkable extent – and notwithstanding severe strains and hardships – developing countries and transition countries have embraced this challenge. But this process cannot be understood as a one-way street. Many industrial countries have not yet developed enough of a sense of urgency to deliver their part of structural change to make globalization work for all. This includes, crucially, that industrial countries recognise that it is both in their own interest of the global economy to take a strong lead in opening their markets. It also includes the necessary awareness of the importance of balanced exchange rate relations between the major currencies. I welcome the action take by the European Central Bank (ECB), together with other major central banks, to bring the Euro better in line with the fundamentals of the European economy. This action also demonstrates the institutional maturity of the ECB.

I do think that the mandate of the IMF demands that the Fund speaks up on both exchange rate and trade issues, which are relevant for stability and growth in the global economy. Estimates of the potential welfare gains for developing countries from a 50 percent worldwide reduction in barriers to trade generally exceed US\$100 billion per year! This drives home the point that greater access to industrialized country markets is key in the fight against poverty. A few months ago, the United States expanded duty-free access to its markets for more than 70 countries in Africa, Central America, and the Caribbean Basin. Just recently the European Commission made a proposal to full open Europe's markets to the 48 poorest countries for "all but arms". I welcome these initiatives and urge further bold steps, particularly in the area of agriculture.

I am convinced: if the willingness of the developing and emerging market countries to tackle energetically their homemade problems would be combined with more determination in the industrial countries to reform and open their markets, we will create a win-win situation for all and thus make the objective of the United Nations of halving the share of people living in poverty by 2015 achievable.

To strengthen its efficiency and legitimacy, the Fund needs to refocus. The Fund's focus must clearly be to promote macroeconomic stability as an essential condition for sustained growth. To pursue this objective, the Fund has to concentrate on fostering sound monetary, fiscal, and exchange rate policies, along with their institutional underpinnings and closely related structural reforms. And more important than ever in the modern economy is the IMF's mandate to oversee the international monetary system and to ensure its effective operation. This virtually obliges the Fund to give particular attention to systemic issues of financial markets, both domestic and international.

To fulfil this task effectively requires the Fund to gain a better understanding and judgement of the dynamics of international capital markets and the operations of private financial intermediaries. In this context I have established a Capital Markets Consultative Group in the IMF to foster a regular dialogue with the private sector. The dialogue in this group will also be an important element of our efforts to avoid crises. With the build-up of further expertise, the Fund should quite naturally assume a coordinating role among the various agencies and fora dealing with financial markets issues.

My ambition is not have more and more lending programs but to place crises prevention and thus surveillance at the center of the Fund's activities. For this, we must develop a culture in the Fund where member countries are eager to seek the Fund's advice early and voluntarily. In our bilateral surveillance we need to place particular emphasis on identifying sources of external and financial sector vulnerability and on helping our member countries cope with volatility in international capital flows. The Fund should further develop its multilateral surveillance with a focus on the early identification of systemic issues and risks, particularly in global financial markets. We should also pay increased attention in our policy advice to issues of regional integration, including through regional surveillance. In its advice the Fund should show respect for the cultural and historical tradition of its member countries, and should not lecture. But, at the same time, it must be candid in conveying its professional analysis and judgement to member countries.

The International Monetary and Financial Committee (IMFC) has launched a wide range of measures to strengthen the global financial architecture, particularly through improved data transparency, standards and codes, vulnerability assessments, and the Financial Sector Assessment Program (FSAP), a joint initiative of the IMF and the World Bank. Taking stock today, we can state that the international financial system is stronger now than before the outbreak of the Asian crises. But we should beware of complacency. Financial sectors in many countries are not yet as robust as they need to be, and there is a risk that the high growth rates could weaken the momentum of reform. All members have to ask themselves how they can accelerate the implementation of these reforms. I think it is the interest of all that the entire membership be fully involved and take full ownership of the initiatives in this area.

In the Fund's work program it is now time to prioritise and concentrate on implementation. We need to concentrate in particular on expanding the financial Sector Assessment Program. This program is a systematic and comprehensive approach to fostering a sound and integrated international financial system. It will benefit countries seeking access to capital markets and professional advice in this process. I especially urge countries that are already integrated into global capital markets and therefore more subject to market volatilities to volunteer their participation.

I am very much aware of objective difficulties emerging market and developing countries can have in their capacity to implement the various standards and codes developed by the international community. We need to prioritise our work, taking better account of the stage of development of domestic financial sectors. And, we need to establish clearer priorities for our technical assistance and help make sure that technical assistance is better coordinated amongst the various providers.

A Fund focused on promoting the stability of the international financial system has to be pointed and rigorous in its assessment of the appropriateness of exchange rate arrangements in member countries. We also need to be able to reach clear conclusions about the right balance and sequencing between capital account liberalization and financial sector development. And I do think that the Fund has to be more proactive in the discussion about the issues of the appropriate regulation and supervision of international financial markets. Here, I also see a particular need for further research and analysis in the Fund.

My discussion with private sector participants, including in the Capital Markets Consultative Group, have confirmed that the crises-prevention work of the IMF and the efforts to strengthen the global financial architecture will bear fruit. However, we have to be aware that crises can occur again in an open and dynamic global economy. Our work should make crises less frequent and less severe. And we should promote financial sectors that are able to absorb shocks. This means we should work to foster competition in the financial sector and diversity among financial intermediaries. It also means that private financial institutions acting in the global market place have to continuously strengthen their capacity to assess and manage risk.

For crises resolution, the Fund needs to have efficient lending instruments and adequate resources to mount a credible response to crises. But its resources are limited and thus the Fund cannot be seen as a lender of last resort. Therefore, it was important to conduct a comprehensive review of IMF facilities. The outcome clearly strengthens the catalytic role of the Fund and the resolving character of its resources. It demonstrates that the cooperative nature of the Fund is solidly rooted in its membership. With the set of differentiated, but streamlined and sharpened, facilities the IMF is now better equipped to deal with crises and prevent contagion.

There has been considerable progress in developing a framework for involving the private sector in the resolution of crises. The rapid return of private capital to a number of crises countries underscores that it makes sense to engage constructively with the private sector, both in the prevention and resolution of crises. Private investors know that they must assume full responsibility for the risks they take. There is broad agreement that the operational framework for private sector involvement should rely as much as possible on market-oriented solutions and on voluntary approaches. It is also undisputed that there may be exceptionally difficult cases that call for more concerted approaches to involve the private sector, including the possibility of standstills as a truly last resort. Judgement will always be a crucial element. Thus a rules-based approach needs flexibility and the use of discretion in a case-by case approach certainly needs to be constrained. We need to explore the middle ground between these approaches further, to make the framework operational. This requires further research and analysis, to enable us better to assess the risks of possible spillover effects on other countries and gain a clearer understanding of the factors that determine how fast a country regains market access.

We need to stick to conditionality in our lending operations but at the same time work to enhance real ownership of programs. We have learned that the effectiveness of members in confronting their economic difficulties depends critically on the vigorous implementation of appropriate stabilization and reform measures. This comes only when the country's authorities are seeking to implement measures that they see as responsive to their needs and capable of securing domestic support. Therefore, I trust that ownership is promoted when the Fund's conditionality focuses in content and timing predominantly on what is crucial for the achievement of macroeconomic stability and growth. Less can be more if it helps to break the ground for a sustained process of adjustment and reform. Moreover, program design must take into account the social dimensions of adjustment programs and the unique characteristics of each country. To foster ownership, the Fund should also explore alternative policy options in program discussions with member countries. This approach to strengthen ownership and streamline IMF conditionality will have to be well coordinated with the World Bank. In this context, I welcome and support the Poverty Reduction and Support Credit which the Bank is planning to introduce, and see it as holding promise for increasing the effectiveness of our joint work in the poorer member countries.

I consider the Poverty Reduction and Growth Facility (PRGF) to be an innovative instrument in the Fund's efforts to make globalization work for the benefit of all. First, because it aims at tackling poverty from its root causes; and second, because its concessional character demonstrates practical solidarity with the poor. Disengagement from the poor countries would be inconsistent with the mandate of the Fund and it would also deepen the division of the world. It would run counter to the ambitions of the people in the poor countries and neglect their talents and potential. The contrary is necessary; namely, encouragement and empowerment.

The PRGF is also a key vehicle to help make the HIPC initiative a success. In no area is cooperation between the Bank and the Fund in the coming months more critical than here. Jim Wolfensohn and I are determined to bring the benefits of debt relief under the HIPC initiative to as many countries as possible as rapidly as possible. The ultimate test of the success of this initiative is how effectively debt relief contributes toward poverty reduction. I trust that the leaders of the poor countries themselves fully recognize the importance of sound policies and good governance.

Especially during visit to Africa. I sensed a lot of bitterness about unfulfilled promises regarding official development assistance (ODA). And, indeed, the promise by OECD member countries was to provide ODA equivalent to 0.7 percent of their GDP. Today the average ratio is 0.24 percent. The difference between promise and delivery in U.S. dollar terms is US\$100 billion a year. I do think that governments in the rich countries must seek more actively to galvanize public opinion in support of ODA. No doubt they will be helped in this regard if there is clear evidence from the aid-receiving countries that aid is used effectively to reduce poverty.

A real breakthrough in poverty reduction will be possible only if private saving and investment take firm roots in these countries and if a much larger part of the savings generated in the world becomes available to them. In this context, credit is and will remain an important financing instrument for investment and is thus also crucial in any longer-term strategy to fight poverty. Therefore, we must not lose sight of the need to preserve and build a sound credit culture. Credit is derived from the Latin word *Crede*. *Crede* means trust. And trust in credit/debtor relations is indispensable for a sustained flow of investment capital to the developing countries and – in a wider context – for the long-term stability of an integrated international financial system. This highlights even more the need for steady work on the ground to strengthen the institutional underpinnings for a productive private sector in the developing countries. Every day that passes unused for this work is a lost day in the fight against poverty.

Here lies for me the main logic in the joint work of the IMF and the World Bank to promote the formulation of poverty reduction and growth strategies in a broad-based participatory process. For me globalization requires, not least, building problem-solving capacity at the local and regional level and to give people there help for self-help. A very practical measure for this could be to bring more systematically together private investors, officials, and international financial institutions (IFIs) to discuss practical issues of the local investment climate. Help for self-help could be further enhanced by fostering regional integration and business cooperation in developing countries. Jim Wolfensohn and I intend to demonstrate our commitment to Africa in a joint visit in the near future.

The oil price hike is a particular setback for the poorest countries. In our multilateral surveillance discussion there was a clear common understanding that the current, excessively high oil price is neither in the interest of oil-consuming countries nor in that of the oil-producing countries. I trust that the dialogue between oil producers and consumers will bear fruit. On the whole, I remain optimistic about the prospects for the world economy. We know that there are significant risks. We discussed these in the IMFC and agreed that, with the appropriate policy management, these risks should not materialize.

Mr Chairman, the IMF of the future should be a strong advocate of improved governance in all member countries. It, is therefore, only logical that the Fund itself has to be receptive to calls for increased transparency and accountability. There has already been a sea change in opening up to the public. And we have just decided to expand further our program of voluntary publication of country reports and staff assessments. Moreover, the Executive Board has now paved the way for making an Independent Evaluation Office in the IMF operational. However, we also have to recognize that there are areas where a frank and candid discussion would be hampered if it had to take place in public. The Fund has to strike a balance between openness and the member's desire for candid and confidential advice. And the Fund must explain itself better – what it is and what it does – particularly in program countries. Thus, the IMF has to expand its dialogue with the public and reach out, not least to civil society at the regional and local level. However, this must not lead to a blurring of responsibilities. Ultimately, the Fund is accountable to the governments of its member countries.

Let me conclude by saying: I sincerely hope that you can join me in the future work of the IMF based on the vision I have just outlined. The IMF can make a difference for long-term growth to benefit all people of the world. For this we have to be focused and concentrate, above all, on the stability of the international financial system. We will benefit from the enhanced partnership with the World Bank and cooperate closely with other institutions.

I see the discussion on changes in the IMF as a permanent process and consider it very important that these further discussions have their center within the Fund itself. I know that staff, management and the Executive Board are deeply committed to the Fund's mandate and want to give their best. I call on the membership of the IMF to make good use of this dedication and work with the Fund in a new spirit of global partnership.

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