# IMF insights

**Presentation by**
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# Outline of the presentation

- Why the IMF was created
- Organization and governance
- Financial resources
- Evolving role of the IMF
- Three functions of the IMF
- The IMF and poverty
- Crisis prevention and crisis resolution
- Ongoing work

# Why the IMF was created

- IMF and World Bank conceived in July 1944 at an international conference held at Bretton Woods
- Motivation: avoid the “beggar-thy-neighbor” policies of the 1930s and restore international cooperation
- Three main events largely determined the form of the IMF:
  - The Paris peace conference (Versailles Treaty)
  - The Great Depression
  - World War II
- In December 1945, 29 countries sign its charter (Articles of Agreement)
- Today, 184 members

# Why the IMF was created

The Fund’s purposes are listed in Article I:

- Promote international monetary cooperation
- Facilitate the expansion and balanced growth of international trade
- Promote exchange rate stability
- Assist in the establishment of a multilateral payment system of payments and in the elimination of foreign exchange restrictions
- Make the general resources temporarily available to members under adequate safeguards to correct balance of payments problems
- Reduce the duration and lessen the degree of disequilibria in the international balances of payments of the members

# Why the IMF was created

The IMF and other Bretton Woods institutions are complementary

- World Bank (IBRD) - 1944
  - Reconstruction and economic development development after WWII
  - Project financing
  - 184 members
- World Trade Organization (WTO) - only in 1993
  - Multilateral trade negociations
  - Global rules of trade
  - Mechanisms of dispute
  - 148 members

# Organisation and governance

- Board of Governors
  - Highest authority governing the Fund
  - Each member represented by a Governor (and Alternate Governor)
  - Decides on major policy issues
  - Usually meets once a year, during the Annual Meetings

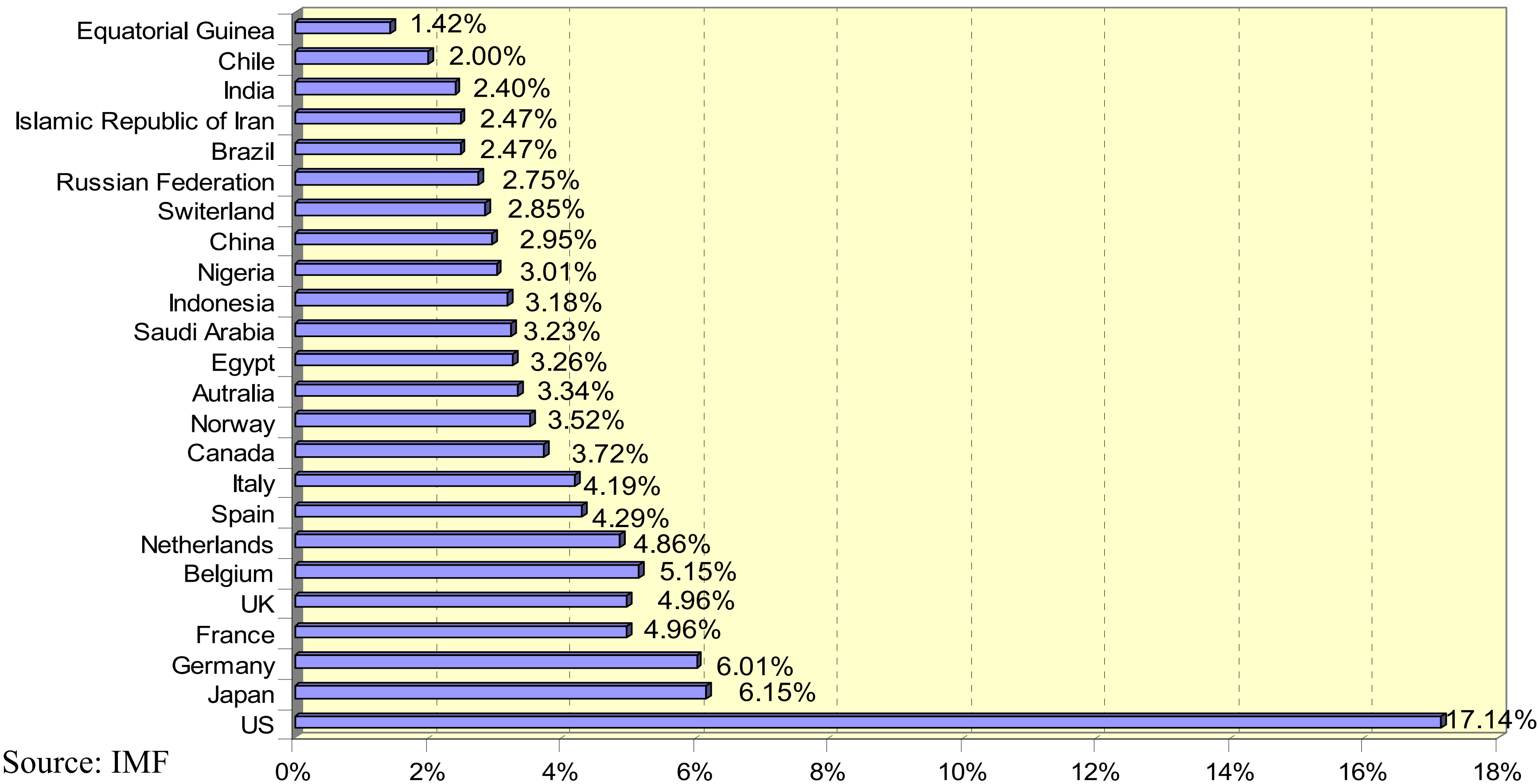
- Executive Board
  - Conducts the day-to-day business of the IMF
  - Composed of 24 Executive Directors
  - In principle, meets three times a week
  - Documents submitted for deliberation with prior management approval
  - The Executive Board selects the Managing Director

# Organisation and governance

- Executive Board – continued
  - 5 largest shareholders (US, Japan, Germany, France and the UK) have their own chair. EDs are appointed
  - Other single-country chairs: China, Russian Federation and Saudi Arabia
  - Other 16 chairs are multi-country chairs. Countries are grouped in so-called “ constituencies ”. EDs are elected for renewable 2 year terms
  - Voting power is weighted according to the countries’ number of quota (capital subscription), which broadly reflect their economic size. However, consensual approach
  - Managing Director serves as Chairman of the Executive Board
  - Minutes released after 10 years

# Organisation and governance

## Executive Directors and voting power




Source: IMF

**As of October 8, 2004. For multi-country chairs, the ED's country of origin is labelled. It can change according to chair-specific constituency agreements.**

# Organisation and governance

- The International Monetary and Financial Committee (IMFC)
  - Dwells on policy pertaining to the international monetary system
  - Composed by the 24 Governors of the countries representing the chairs in the Executive Boards
  - Consultative role
  - Meets twice a year, during the Spring and Annual Meetings

- The Development Committee
  - Joint IMF-World Bank Committee of the Board of Governors
  - Advises and reports to the Governors on development policy and other matters of concern to developing countries
  - Consultative role
  - Meets twice a year, during the Spring and Annual Meetings

# Organisation and governance

- Management
  - IMF Management is composed by the Managing Director, a first Deputy Managing Director and two other Deputy Managing Directors
  - The Managing Director is serving as chairman of the Board, is the chief of IMF staff and conducts IMF business under the direction of the Executive Board. He is appointed for a renewable five-year term
  - For the appointment of the Managing Director, there is a non-written rule ….

# Organisation and governance

- Management – continued
  - Managing Directors from the IMF’s inception to today:
    - 1946: Camille Gutt (Belgium)
    - 1951: Ivar Roth (Sweden)
    - 1956: Per Jacobson (Sweden)
    - 1963: Paul Schweitzer (France)
    - 1973: Johannes Witteveen (Netherlands)
    - 1978: Jacques de Larosière (France)
    - 1987: Michel Camsdessus (France)
    - 2000: Horst Köhler (Germany)
    - 2004: de Rato (Spain) …

# Organisation and governance

…
- There is an implicit understanding that the Managing Director comes from a European country
- There is an implicit agreement that the President from the World Bank is from the US
- Criticism: non-transparent process

⇨ in 2004, pressure for change

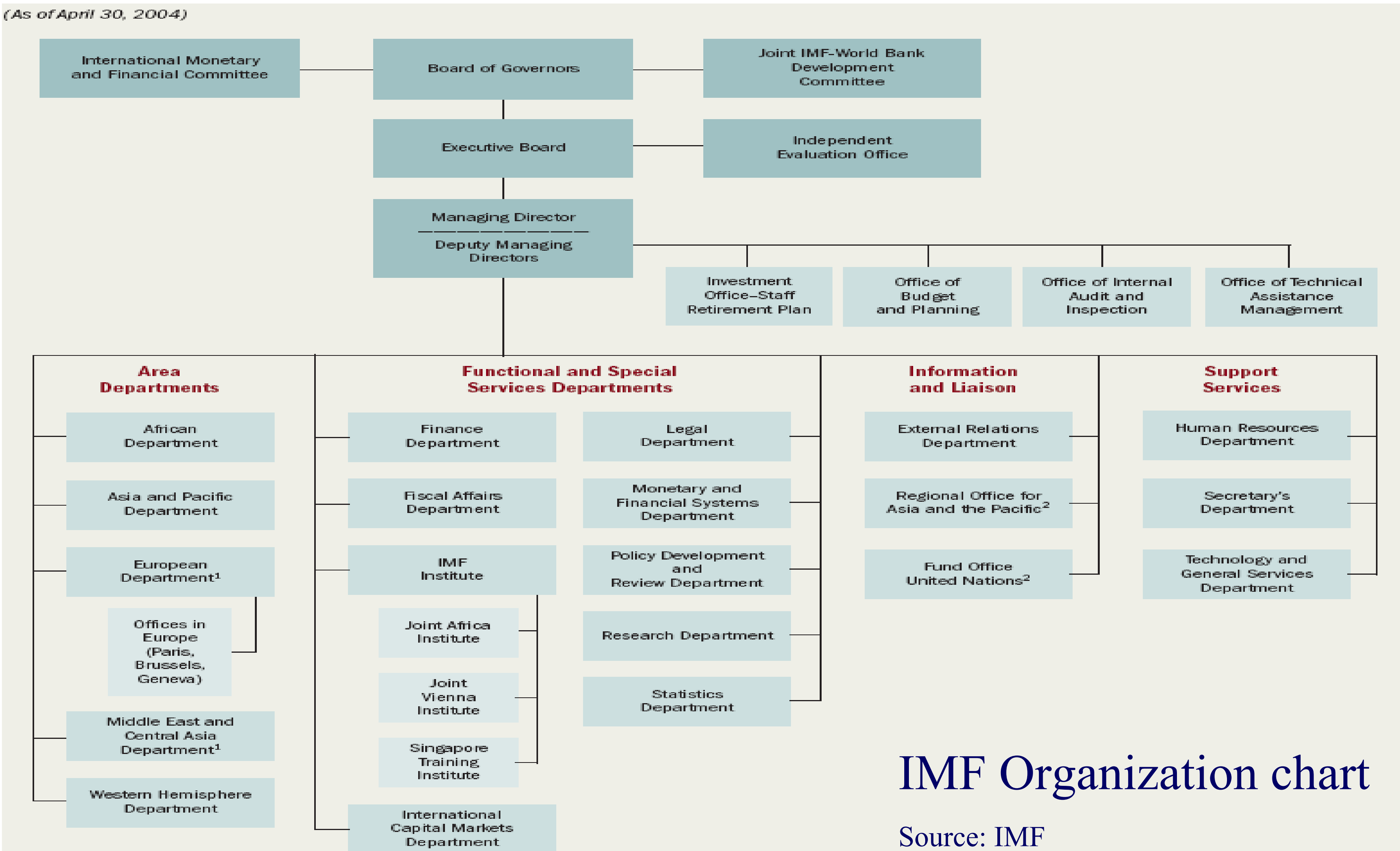
# Organisation and governance

- The IMF staff
  - Highly qualified
  - Sole responsibility is to the Fund
  - As of December 31, 2003: 2,693 employees (1,774 in 1990)

| ***In %*** ***December 03/(1990)*** | **Developing countries** | **Indusrial countries** | **Women** | **Men** |
|---|---|---|---|---|
| **All staff** | 43.4 (41.2) | 56.6 (58.8) | 46 (46.6) | 54 (53.5) |
| **Economists (36% of staff)** | 43.3 (41.6) | 56.7 (58.4) | 24.3 (13.2) | 75.7 (86.8) |
| **Total professional staff** | 40.6 (38.2) | 59.4 (61.8) | 35.2 (30.5) | 64.8 (69.5) |
| **Managerial staff** | 31.1 (25.5) | 68.9 (74.5) | 15.4 (5.5) | 84.6 (94.5) |

Source: IMF

# Organisation and governance




IMF Organization chart

Source: IMF

# Financial ressources

- Quotas
- Gold holdings
- General Arrangements to Borrow (GAB)
- New Arrangements to Borrow (NAB)
- How does the Fund cover its operational costs?

# Financial ressources

- Quotas
  - Broadly reflecting the country member’s relative size in the world economy
  - Quotas determine:
    - Subscription payments
    - Max. amount of financing a member can receive from the Fund
    - Share of Special Drawing Rights (SDR) allocated to members as a percentage of their quotas
    - Voting power
  - Changes in quotas require a 85% majority
  - Eleventh review (1999) raised quotas by about 45% to SDR 212 billion

# Financial ressources

## What is a Special Drawing Right (SDR) ?

- International reserve asset introduced by the first amendment of the Articles of Agreement in 1969
- Concern that the current and prospective level of reserves might not be sufficient to support the expansion of world trade
- Idea: allocate SDRs when need arise and cancel as necessary
- So far, IMF has allocated SDR 21.4 billion to member countries
- Last allocation took place in 1981
- Other function: unit of account of the IMF
- Value is computed daily, using a basket of four major currencies (USD, JPY, EUR, GBP)
- October 22: SDR = USD 1.49
- Composition of the basket is reviewed every five years
- SDR interest rate set weekly (October 18 - 24 : 2.03%)

# Financial ressources

- Gold holdings
  - IMF remains one of the largest official holders of gold in the world
  - 103.4 million ounces of gold (3,217 metric tons)
  - Value at historical cost in IMF balance sheet: SDR 5.9 billion (USD 8.8 billion)
  - Market price value as of August 2004: USD 42.2 billion

# Financial ressources

- GAB and NABs: possibility for additional resources
  - GABs, established in 1962
    - 11 participants (G10 + Switzerland)
    - Credit available: SDR 18.5 billion (17 + 1.5)
    - Activated 10 times
  - NABs, established in 1998
    - 26 participants, commitments based mainly on relative economic strength
    - Credit available: SDR 15.5 billion
    - Activated once

⇨ Through the combined arrangements, the IMF can borrow SDR 34 billion if it believes that resources might fall short of members' needs

# Financial ressources

- How does the Fund cover its own costs?
  - Need: meet funding costs, pay administrative expenses and build up precautionary balances (reserves)
  - Resources: income from interest charges and fees levied on its loans
  - The 5 main borrowers cover the bulk of the costs while industrialized countries push for new missions

# Evolving role of the IMF

- Broadening of the membership
  - Initially, predominantly club of capitalist countries
  - Africa's decolonization in the 60s,
  - End of the cold war in the early 90s

⇨ Adapt to new countries with different needs

- Fight against poverty
- Technical assistance

# Evolving role of the IMF

- Globalization
  - When the IMF was founded, limited private-sector financial flows
  - First big increase emerged in the 70s (Eurodollars)
  - By the 90s, cross-border flows are an essential source of financing
  - Financial crises in emerging markets in the 90s

⇨ Promote global financial stability

- Strengthening financial sectors (FSAPs, OFCs, AML/CFT, FSIs)
- Review of lending facilities
- Standards and codes of good practice (ROSCs)
- Openness and publication of data (GDDS, SDDS)
- Transparency and accountability (publication, IEO)

# Three functions of the IMF

- Surveillance
- Technical assistance
- IMF lending

# Surveillance

- Country surveillance
  - Article IV consultations
  - Comprehensive consultations with individual member countries about their economic policies
    - Economic outlook and determinants
    - Fiscal, monetary, exchange rate
    - Financial sector
    - Structural issues
    - Governance
  - Normally conducted on a yearly basis
  - In FY2004, 115 Article IV consultations conducted

# Surveillance

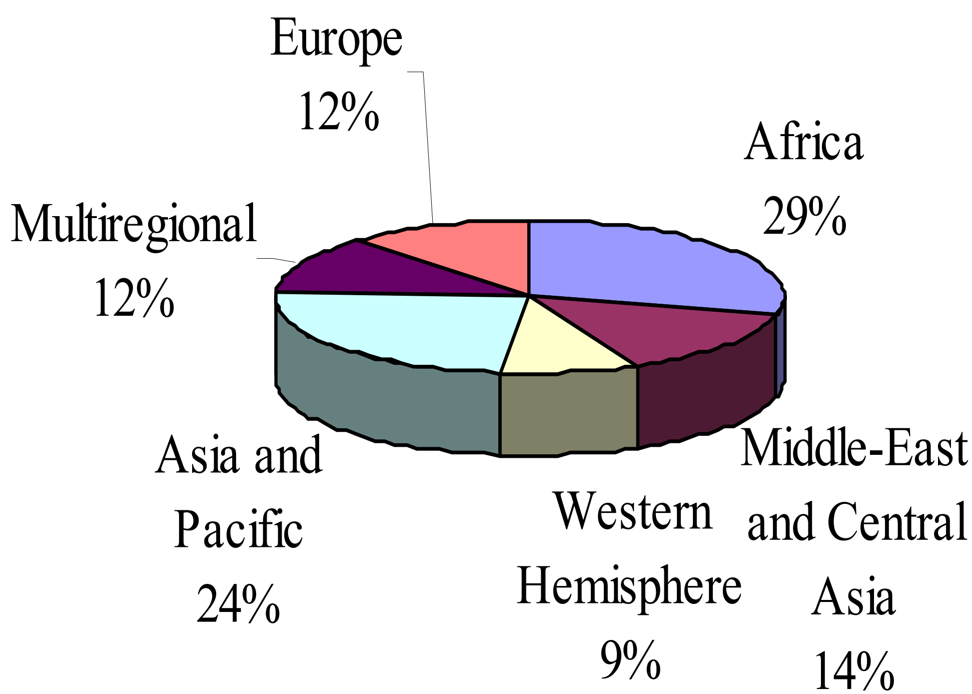
- Regional surveillance
  - Examination of policies pursued under regional arrangements
  - Examples: Euro area, West African Economic and Monetary Union (WAEMU)
- Global surveillance
  - Reviews of global economic trends and developments
  - Assessment of the world economy’s health: World Economic Outlook (WEO)
  - Assessment of the international financial market’s stability: Global Financial Stability Report (GFSR)
  - Participation of management and staff in surveillance discussions of G7 and other groups

# Technical assistance

- TA complements IMF's policy advice and financial assistance
- Accounts for about 20% of the Fund's administrative costs
- In FY 2004, 367 person-years
- Wide array of areas
  - Designing and implementing fiscal and monetary policies
  - Drafting and reviewing economic and financial legislation, regulations and procedures
  - Institution and capacity building for central banks, treasuries, tax and customs departments, statistical services
- 5 regional TA centers: provide technical assistance to groups of countries confronted with similar problems (PFTAC, CARTAC, AFRITAC, METAC)
- Training

# Technical assistance

Technical assistance by region, FY 2004




Source: IMF

# IMF lending

- Basic idea: easing the adjustment a country has to make to correct its BOP problem and support policies that will improve BOP position and growth prospects
- Also: fighting against poverty
- Non-concessional and concessional financing facilities
- Regular lending conducted through the General Resources Account (GRA)
- IMF-supported programs with 2 key concepts: conditionality and ownership
- Letters of intent
- Regular reviews
- Safeguards Assessment policy
- Post-program monitoring and ex-post assessments

# IMF lending

- Unlike development banks, the IMF does not lend for specific projects
- Since late 70s, industrial countries have been able to finance their needs from capital markets
- Today, borrowers all are from developing countries, countries in transition or emerging markets economies

⇨ Commonality of interest has been diminished – IMF became divided in persistent creditor and debtor groups

- Preferred creditor status
- Catalytic effect of IMF lending
- ST or MT financing but problem of prolonged users

# IMF lending

- Regular financing activities
  - Stand-by Arrangements (SBA) - 1952
  - Extended Fund Facility (EFF) - 1974
  - Supplemental Reserve Facility (SRF) - 1997
  - Compensatory Financing Facility (CFF) - 1998
  - Emergency assistance
    - Natural disasters (1962)
    - Post-conflict (1995)
- Concessional financing activities
  - Poverty Reduction and Growth Facility (PRGF) – 1999

# IMF lending

- Stand-by Arrangements
  - Purpose: MT assistance for countries with BOP difficulties of ST character
  - Conditions: Adopt policies that provide confidence that the member's BOP problems will be resolved
  - Access limits: Annual: 100% of quota; Cumulative: 300% of quota
  - Obligation schedule: 3 ¼ - 5 years
  - Expectation schedule: 2 ¼ - 4 years
  - Charges : basic rate + surcharge for high levels of access

# IMF lending

- Extended Fund Facility (EFF)
  - Purpose: Longer-term assistance to support member’s structural reforms to address BOP difficulties of LT character
  - Conditions: Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months
  - Access limits: Annual: 100% of quota; Cumulative: 300% of quota
  - Obligation schedule: 4 ½ - 10 years
  - Expectation schedule: 4 ½ - 7 years
  - Charges : basic rate + surcharge for high levels of access

# IMF lending

- Supplemental Reserve Facility (SRF)
  - Purpose: Very ST assistance for BOP difficulties related to crises of market confidence
  - Conditions: Available only in the context of SBAs or EFFs with associated program and with strengthened policies to address loss of market confidence
  - Access limits: No access limits. Access only when access under associated regular arrangements would exceed limits (annual or cumulative)
  - Obligation schedule: 2 ½ - 3 years
  - Expectation schedule: 2 - 2 ½ years
  - Charges : basic rate + surcharge

# IMF lending

- Compensatory Financing Facility (CFF)
  - Purpose: MT assistance for temporary export shortfalls or cereal import excesses
  - Conditions: Existing arrangement and shortfall/excesses largely beyond the control of the authorities or BOP position excluding the shortfall/excess is satisfactory
  - Access limits: 45% of quota
  - Obligation schedule: 3 ¼ - 5 years
  - Expectation schedule: 2 ¼ - 4 years
  - Charges : basic rate
  - Not used since 1999 – will be reviewed in 3 years

# IMF lending

- Emergency assistance for natural disasters and post-conflict situations
  - Purpose: Quick, MT assistance for BOP problems related to natural disasters (1) and conflicts (2)
  - Conditions: Reasonable efforts to overcome BOP difficulties (1) or focus on institutional and administrative capacity building paving the way for successor arrangement
  - Access limits: generally 25% of quota, more in exceptional cases
  - Obligation schedule: 3 ¼ - 5 years
  - Expectation schedule: not applicable
  - Charges : basic rate

# IMF lending

- Poverty Reduction and Growth Facility (PRGF)
  - Purpose: Longer-term assistance for deep-seated BOP difficulties of structural nature
  - Conditions: Adopt a 3-year PRGF program based on a Poverty Reduction Strategy Paper (PRSP)
  - Access limits: 140% of quota or 185% in exceptional circumstances
  - Obligation schedule: 5 ½ - 10 years
  - Expectation schedule: not applicable
  - Charges : 0.5%

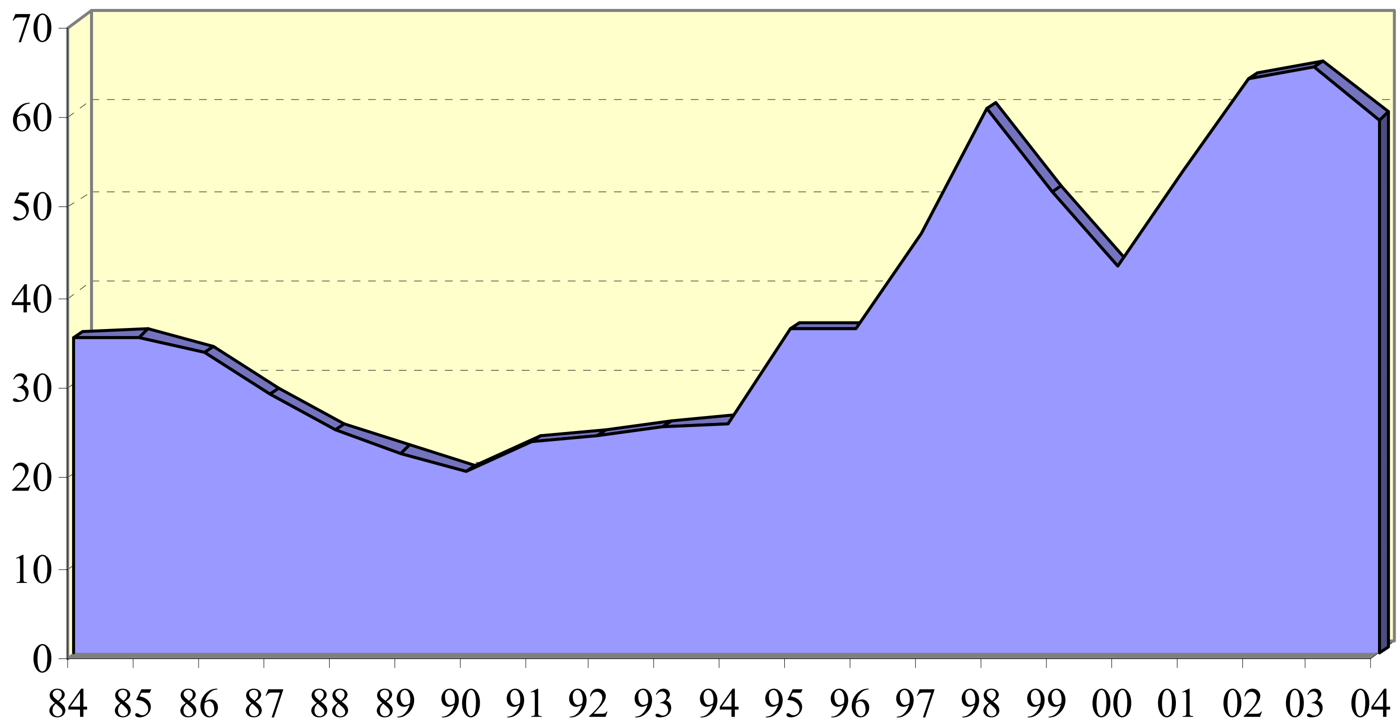
# IMF lending

- Outstanding credit reached all-time high in September 2003 (SDR 70 billion)
- FY 2004: SDR 69 billion
- Huge credit concentration
  - Average exposure to the 5 largest debtors in the last two decades:
    - 1980s: 41%
    - 1990s: 60%
    - FY 2004: 86% (Brazil, Turkey, Argentina, Indonesia and Russian Federation)
  - FY 2004: 71% to 3 countries (Brazil, Turkey and Argentina)
- Forward Commitment Capacity (FCC): SDR 58 billion at end-August 2004
- Exceptional access

# IMF lending

IMF Credit Outstanding  for all members from 1984 – 2004

*SDR billion*




Source: IMF

# IMF and poverty

- Poverty Reduction and Growth Facility (PRGF)
- Poverty Reduction Strategy Papers (PRSPs)
- Heavily Indebted Poor Countries (HIPC) Initiative
- Africa Capacity-Building Initiative (AFRITAC)
- Monterrey consensus
- UN Millennium declaration

# IMF and poverty

- Poverty Reduction and Growth Facility (PRGF)
  - IMF's low-interest lending facility for low-income countries
  - PRGF-supported programs underpinned by comprehensive country-owned poverty reduction strategies (PRSPs)
  - As of September 2004, 78 low-income countries are eligible for PRGF assistance
  - Eligibility is based principally on the IMF's assessment of a country's per capita income (+/- USD 900)

# IMF and poverty

- Poverty Reduction Strategy Papers (PRSPs)
  - Prepared by governments in low-income countries through a broad-based participatory process
  - Provide the operational basis for Fund and Bank concessional lending and for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative
  - Describe the policies and programs that a country will pursue to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing

# IMF and poverty

- Heavily Indebted Poor Countries (HIPC) Initiative
  - Initiative launched in 1996 by the IMF and the World Bank
  - Ensure that no poor country faces a debt burden it cannot manage
  - Aim: Reduce NPV of country’s debt to 150% of its exports (or 250% of fiscal revenue for countries with exports exceeding 30% of GDP)
  - Comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF- and World Bank-supported adjustment and reform programs
  - 37 countries potentially qualify
  - Potential cost: $55 billion in net present value terms
  - To date, debt reduction packages have been approved for 27 countries, 23 of them in Africa, providing $32 billion (net present value terms) in debt service relief over time

# IMF and poverty

- Heavily Indebted Poor Countries (HIPC) Initiative - continued
  - To be considered for HIPC Initiative assistance, a country must:
    - Face an unsustainable debt burden, beyond traditionally available debt-relief mechanisms;
    - Establish a track record of reform and sound policies through IMF and WB-supported program; and
    - Have developed a PRSP through a broad-based participatory process
  - Decision point, interim debt relief, completion point
  - Topping up

# IMF and poverty

- Africa Capacity-Building Initiative (AFRITAC)
  - Initiative launched in May 2002
  - Goals
    - Strengthen the capacity of African countries to design and implement their poverty-reducing strategies and to improve the coordination of capacity-building technical assistance in the PRSP process
    - Increase the volume of capacity-building assistance from the IMF to Africa in the IMF’s core areas of expertise
  - Two regional centers: Tanzania (East) and Mali (West)

# IMF and poverty

- UN Millennium Declaration (2000)
  - Millennium Development Goals (MDGs)
  - One of the main objectives: halving poverty by 2015

- Monterrey consensus (2002)
  - Two pillar approach:
    - Pro-activity – sound policies, strengthening institutions, improving governance
    - Strong support by the international community: greater trade opportunities and increased aid flows. Conditionality = 1st pillar
  - Resources to meet the MDGs

# Crisis prevention and crisis resolution

- Crisis prevention
  - First line of defense = good policies!
  - Strengthening financial sectors
  - Close monitoring of capital markets (GFSR, CMCG)
  - Strengthening analytic tools to detect vulnerabilities
    - Debt sustainability assessments (DSAs)
    - Balance sheet approach

# Crisis prevention and crisis resolution

- Crisis resolution
  - Striking the right balance between lending and moral hazard
  - Private sector involvement (PSI)
  - Streamlining the conditionality of IMF-supported programs
  - Clearly defining the IMF's lending into arrears policy (LIA)
  - Improving sovereign debt restructuring
    - Collective Action Clauses (CACs)
    - Code of conduct
    - Sovereign debt restructuring mechanism (SDRM)

# Ongoing work

- A successor for the Contingent Credit Line (CCL)?
- Non-borrowing programs?

# Key information on the IMF

# www.imf.org

Thank you for your attention