Chapter 5

The Fight Against Poverty in Low-Income Countries

The central objective of the IMF's operations in low-income countries is deep and lasting poverty reduction, which requires sustained economic growth and policies directed toward the needs of the poor. These are most likely to come about when, first, policies are sound, tailored to the needs and circumstances of individual countries, country-owned, and supported by strong institutions; and, second, when such national efforts are reinforced by a supportive global economic environment and international assistance. When these other conditions are in place, international assistance can be highly effective.

This "two-pillar" strategy was firmly endorsed by the international community in the Monterrey Consensus and reaffirmed at the Johannesburg Summit on Sustainable Development.[1] The strategy is based on the need for a sense of responsibility and determination in low-income countries to pursue sound policies and good governance, and it stresses that this must be matched by better and stronger international support—through increased and more effective aid, technical assistance, and a supportive international environment, including better market access for developing countries' exports and the phasing out of trade-distorting subsidies.

The IMF is committed to the fight against world poverty. The IMF's involvement in this crucial effort is within its mandate, pragmatic, and guided by considerations of effectiveness and practicality. First, the instruments, policies, and procedures that the IMF brings to this effort must not only be consistent with its institutional mandate but also be attuned to the special needs of low-income countries. Second, to be effective, the IMF must focus on its core areas of responsibility and competence, where it has a clear comparative advantage—macroeconomic policies and their supporting institutions, which are critical to establishing and maintaining conditions for sustainable growth, the promotion of sound financial sectors, the development of financial markets and the private sector, and the stability of the international financial system. In the process of its involvement in poverty reduction efforts, the IMF must also clearly define its expected contribution and delineate its role relative to those of other development partners, particularly the World Bank, which has the lead institutional role in poverty reduction. The Executive Board discussed a number of aspects of the IMF's support for low-income countries during the financial year—the subject of this chapter—and will be deepening this work program in FY2004.

As part of the second pillar of the poverty reduction strategy, the IMF supports its poorest members in several important areas:

- Helping them to develop and implement economic adjustment and reform programs aimed at accelerating sustainable growth. The IMF's contribution to these programs is in its areas of core expertise, set within the Poverty Reduction Strategy Paper (PRSP) approach (see Box 5.1), and supported in many cases through concessional loans from the IMF's Poverty Reduction and Growth Facility (PRGF). In recent years, the IMF has also contributed through its technical assistance activities—including through regional technical assistance centers delivering fiscal, financial, monetary, statistical, and institution-building training in the Pacific and Caribbean regions and in Africa (see Chapter 6). In addition, the IMF is cosponsor of a targeted effort to assist the seven poorest countries of the former Soviet Union—the CIS-7 Initiative (Box 5.2).
- Helping the Heavily Indebted Poor Countries (HIPC) address the burden of unsustainable debt through the enhanced HIPC Initiative.
- Advocating better market access for developing countries' exports and elimination of trade-distorting subsidies.
- Supporting the call for increased and better-targeted support by the international community, and the system for monitoring actions aimed at the achievement of the Millennium Development Goals (MDGs).

Other initiatives include collaborating with the World Bank on financial sector work in the areas of microfinance, finance for small and medium-sized

[1]The Conference on Financing for Development was held in Monterrey, Mexico, in March 2002. The World Summit on Sustainable Development took place in Johannesburg, South Africa, in late August 2002.

Box 5.1
What Is a PRSP?

Poverty Reduction Strategy Papers (PRSPs) are prepared by low-income countries through a participatory process involving domestic stakeholders and external development partners, and are endorsed by the IMF and the World Bank. Updated periodically (up to five years) with annual progress reports, PRSPs describe the country's macroeconomic, structural, and social policies and programs over a three-year or longer horizon to promote broad-based growth and to reduce poverty, as well as associated external financing needs and major sources of financing.

Recognizing that preparation of a PRSP is a lengthy process, the World Bank and IMF have agreed to provide concessional assistance on the basis of Interim PRSPs. I-PRSPs summarize the current knowledge and analysis of a country's poverty situation, describe the existing poverty reduction strategy, and lay out the process for producing a fully developed PRSP in a participatory fashion.

The country documents, along with the accompanying IMF/World Bank Joint Staff Assessments (JSAs), are made available on the IMF and World Bank websites in agreement with the member country. PRSPs and I-PRSPs, as well as policy documents related to the PRSP approach, can be found on the IMF's website.

enterprises, long-term finance, stock markets, and access to international capital markets, especially foreign direct investment. To promote private sector development, the World Bank and the IMF are setting up pilot investment councils. Such councils have been established in Ghana, Tanzania, and Senegal.

Aligning PRGF-Supported Programs and the PRSP Approach

The PRSP approach has become widely accepted by low-income countries and the donor community as an effective way to mobilize broad input to and ownership of national poverty reduction strategies. However, the PRSP is still a relatively new instrument, whose content and

Box 5.2
The CIS-7 Initiative

The CIS-7 Initiative was launched at the Spring Meetings of the IMF and World Bank in April 2002, following a seminar in London in February 2002. The initiative—sponsored by the IMF, World Bank, Asian Development Bank, and the European Bank for Reconstruction and Development—seeks to draw attention to the plight of the seven low-income members of the Commonwealth of Independent States (CIS)—Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan. During FY2003, two international conferences were organized and a joint assessment of progress was made by the Initiative sponsors in April 2003.

Third Forum on Poverty Reduction Strategies for CIS-7 Countries

The Third Forum on Poverty Reduction Strategies for CIS-7 countries was held in Almaty, Kazakhstan, in December 2002. It was organized by the World Bank, the IMF, and the United Nations Development Program, and received financial support from the government of Switzerland. Representatives of the donor community also included the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), the European Union (EU), the International Labor Organization, the Islamic Development Bank, France, Germany, Japan, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

Forum participants shared experiences in designing and implementing poverty reduction strategies. Because most of the countries were close to finalizing, or had already finalized, their Poverty Reduction Strategy Papers (PRSPs), participants—especially the PRSP teams—were able to concentrate on the challenges they would face as they began to implement these strategies. In particular, the forum focused on:

- *Strategies for equitable growth*—the investment climate, trade as an engine of growth and poverty reduction, rural development strategies, and policies to support social inclusion.
- *Improvements in the design, implementation, and monitoring of PRSPs*—the use of poverty and social impact analysis systems for poverty monitoring, linking PRSPs to the budget, and donor alignment in support of PRSP implementation.
- *Institutionalization of the PRSP to strengthen governance and accountability*—the roles and responsibilities of various groups within civil society: community groups, parliament, local government, and the media.

A key message from the forum was the need to ensure that the PRSP becomes fully integrated into the regular business of government, including budget preparation. This effort would require continued capacity building for better analysis of the social impact of policies, and to support improved design and monitoring of policies. A particular concern for several countries was to ensure that disadvantaged groups—children, the disabled, women, internally displaced persons, and migrant workers—would benefit from economic growth.

Lucerne Conference on the CIS-7 Initiative

Meeting in Lucerne, Switzerland, in January 2003, representatives from the governments and civil society organizaprocedures are evolving in response to lessons learned and the needs and capacities of individual countries. Following up recommendations in the Board's reviews of the PRSP and PRGF lending in FY2002 (see *Annual Report 2002*, Chapter 5), increased attention is being paid in country programs to creating the right environment for investment and growth. In addition, efforts are under way to bring poverty and social impact analysis (PSIA) more systematically to bear in the formulation of poverty reduction strategies and under PRGF lending, and to strengthen public expenditure management, especially in collaboration with the World Bank (Box 5.3).

The reviews of the PRSP and PRGF also focused on the tension between the ambitious objectives set out in the PRSP and the need for a realistic framework on which to base national budgets and PRGF-supported programs. In April 2003, the Board discussed important new steps to help align the PRSP approach and PRGF-supported programs, including:

- an effort to incorporate more realistic projections and assumptions;
- rationalization of documentation under the PRGF loan program to demonstrate clearly how the PRGF supports the goals of the PRSP plan, indicate how policy choices have been made, and reduce overall reporting requirements; and
- greater coherence between PRSP plans and the budget process in low-income countries, and closer synchronization of the cycle of PRGF-supported programs with those of the PRSP and national budgets.

The harmonization of donor procedures with the budget and PRSP processes will have a critical role to play in the success of this effort. Looking forward, staff will be deepening its work on related analytical issues, including the linkages between macroeconomic and structural policies and growth in low-income countries. A joint IMF-Bank research conference on this nexus of issues is planned for the first half of 2004.

tions of the CIS-7, multilateral organizations, donor countries, academia, and international nongovernmental organizations stressed donor coordination, good governance and country ownership of reforms, capacity building, and regional cooperation. The conference broadened and deepened the debate to include a range of economic, institutional, and social issues that must be tackled if the seven countries are to complete the transition process and secure a lasting reduction in poverty.

Although conference participants highlighted the long road ahead for the CIS-7 countries as they seek to become full-fledged market economies and improve living standards for their people, the country delegations were broadly optimistic about the future. Indeed, the pickup in growth during the past few years, despite weaknesses in the global economy, has led to some reduction in poverty, suggesting that these countries are on the right path.

The consensus that emerged at the Lucerne conference was that further concerted action would be needed to enhance donor coordination and financial assistance—including debt relief where necessary—for countries following appropriate policies.

Assessment of Progress

Progress under the CIS-7 Initiative was reviewed in an April 2003 report prepared jointly by the European II Department of the IMF, the Europe and Central Asia Region of the World Bank, the Banking Department and Office of the Chief Economist of the EBRD, and the East and Central Asia Regional Department of the Asian Development Bank.

The sponsors of the initiative found that results from its first year were promising. Most of the countries made significant advances in designing and carrying out programs in the context of the PRGF/PRSP process, and that process provided a useful framework for coordinating donor support. Progress was also made in addressing the debt issue, albeit at a slower pace than hoped for by some participants. Paris Club reschedulings for Georgia and the Kyrgyz Republic provided valuable cash-flow relief in those countries. Bilateral reschedulings—notably agreements between Russia and Armenia, and agreements signed by Kazakhstan, Russia, and Uzbekistan with Tajikistan—also provided essential relief. Fiscal positions in the region had generally improved, but debt burdens remained high in some countries.

The report noted that understanding of trade issues among the CIS-7 countries was improving due to the extensive analytical work, but concrete results were less visible in this area. Improving regional cooperation to promote rather than prevent transit trade is key to unlocking the growth potential of the countries. Access to the EU and other industrial country markets remains a pressing issue.

Finally, although the CIS-7 countries will continue to share many common issues for years to come, there is a growing divergence of policies and performance. The report concluded that it would be useful to reexamine the benefits of grouping all seven countries under the same initiative. The next meeting of the CIS-7, donor governments, and the sponsoring international financial institutions is slated for the spring of 2004.

Box 5.3

IMF–World Bank Collaboration on Public Expenditure Issues

Following the 2002 Monterrey Conference, the Development Committee of the World Bank and the IMF indicated that the two institutions would scale up and intensify efforts to assist countries to mobilize domestic resources and improve the quality of public spending. In March 2003, the IMF's Executive Board considered a joint IMF–World Bank staff paper on the two institutions' collaboration on public expenditure issues.

While each country has primary responsibility for its own economic and social development, Directors emphasized that the IMF and the Bank, guided by their respective mandates, had an important role to play in supporting country-led strategies on public spending reform. Although the two institutions have different approaches to public expenditure work, reflecting their different mandates and time horizons, their experience suggests that a clear government vision of reform could make their approaches more complementary. At the same time, Directors stressed that this vision would need to be buttressed by close World Bank–IMF collaboration to ensure that actual assistance and policy advice were consistent and complementary. Directors underscored the importance of developing processes that would enable a government and its development partners to formulate an agreed reform program and a common understanding of the sequencing of reforms.

Although a survey of stakeholders had rated Bank–IMF collaboration as between adequate and effective, Directors noted that there was scope for improvement. They highlighted, in particular, the need to better plan staff missions so as to reduce the burden on country authorities, to better coordinate the different time frames of IMF and Bank work on public expenditure issues, and to strengthen the collaboration with donors on country-led reform strategies.

Directors endorsed a new framework for better collaboration among development partners. Centered on strong country ownership, the framework focuses on:

- the articulation by the government of public expenditure reform strategies in PRSPs or other country-owned documents;
- an integrated and well-sequenced program of technical and financial assistance from development partners (including diagnostic work), to support countries' public expenditure reform strategies; and
- periodic reporting by countries of their performance in public expenditure policy, financial management, and procurement.

Directors observed, however, that in the absence of adequate government commitment, even enhanced collaboration between the IMF and the World Bank would not ensure substantial progress on expenditure reform.

Box 5.4

How the HIPC Initiative Works

To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. It needs to establish a track record of good performance (normally, for a three-year period), and develop a Poverty Reduction Strategy Paper or an Interim-PRSP. Its efforts are complemented by concessional aid from all relevant donors and institutions and traditional debt relief from bilateral creditors, including the Paris Club.

In this phase, the country's external debt situation is analyzed in detail. If its external debt ratio, after the full use of traditional debt relief, is above 150 percent for the net present value (NPV) of debt to exports (or, for small open economies, above 250 percent of government revenue), it qualifies for HIPC relief. At the *decision point*, the IMF and the World Bank formally decide on the country's eligibility, and the international community commits to reducing the country's debt to a sustainable level. A country reaches its *completion point* once it has met the objectives set up at the decision point. It then receives the balance of the debt relief committed. This means all creditors are expected to reduce their claims on the country, measured in NPV terms, to the agreed sustainable level.

Once it qualifies for HIPC relief, the country must continue its good track record with the support of the international community, satisfactorily implementing key structural policy reforms, maintaining macroeconomic stability, and adopting and implementing a poverty reduction strategy. Paris Club bilateral creditors reschedule obligations coming due, with a 90 percent reduction in NPV terms, and other bilateral and commercial creditors are expected to do the same. The IMF and the World Bank and some other multilateral creditors may provide interim debt relief between the decision and completion points.

Debt Sustainability in Heavily Indebted Poor Countries

Through the HIPC Initiative, the IMF and World Bank are assisting heavily indebted low-income countries to qualify for debt relief, within a policy framework that can contribute to long-term debt sustainability (Box 5.4). In addition, the IMF and World Bank are helping these countries to grapple with issues of incomplete creditor participation, HIPC-to-HIPC debt relief (that is, debt relief in the context of claims held by one heavily indebted poor country against another), and creditor litigation.

To date, the HIPC Initiative, together with traditional and other debt relief initiatives, has resulted in debt reduction of about $40 billion in net present value terms for 26 countries—representing about two-thirds of these countries' outstanding stock of external debt. Commitments of HIPC assistance by the IMF have totaled SDR 1.6 billion thus far, or about $2.1 billion at the end-April 2003 SDR/dollar exchange rate (Table 5.1). The debt relief provided to date has helped these countries increase annual social spending

Table 5.1

Status of Commitments of HIPC Assistance as of April 30, 2003

(In millions of SDRs; for definitions, see below)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed[1]
Benin	Jul. 2000	Mar. 2003	18.4	20.1
Bolivia	Sep. 1997[2]	Sep. 1998	21.2	21.2
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2
Burkina Faso	Sep. 1997[2]	Jul. 2000	16.3	16.3
Burkina Faso	Jul. 2000	Apr. 2002	27.7[3]	18.1
Cameroon	Oct. 2000	Floating	28.5	2.5
Chad	May 2001	Floating	14.3	4.3
Côte d'Ivoire	Mar. 1998[2]	—	16.7[4]	—
Ethiopia	Nov. 2001	Floating	26.9	8.2
Gambia, The	Dec. 2000	Floating	1.8	0.1
Ghana	Feb. 2002	Floating	90.1	9.9
Guinea	Dec. 2000	Floating	24.2	5.2
Guinea-Bissau	Dec. 2000	Floating	9.2	0.5
Guyana	Dec. 1997[2]	May 1999	25.6	25.6
Guyana	Nov. 2000	Floating	30.7	10.3
Honduras	Jun. 2000	Floating	22.7	4.5
Madagascar	Dec. 2000	Floating	16.6	5.0
Malawi	Dec. 2000	Floating	23.1	2.3
Mali	Sep. 1998[2]	Sep. 2000	10.8	10.8
Mali	Sep. 2000	Feb. 2003	34.7	38.5
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4
Mozambique	Apr. 1998[2]	Jun. 1999	93.2	93.2
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8
Nicaragua	Dec. 2000	Floating	63.0	1.9
Niger	Dec. 2000	Floating	21.6	3.3
Rwanda	Dec. 2000	Floating	33.8	10.0
São Tomé and Príncipe	Dec. 2000	Floating	—	—
Senegal	Jun. 2000	Floating	33.8	8.2
Sierra Leone	Mar. 2002	Floating	98.5	47.3
Tanzania	Mar. 2000	Nov. 2001	89.0	96.4
Uganda	Apr. 1997[2]	Apr. 1998	51.5	51.5
Uganda	Feb. 2000	May 2000	68.1	70.2
Zambia	Dec. 2000	Floating	468.8	351.6
27 members, of which 26 members received commitments of enhanced HIPC assistance			1,570.3	1,034.3

Definitions: **Decision point**: Point at which the IMF decides whether a member qualifies for assistance under the HIPC Initiative (normally at the end of the initial three-year performance period) and decides on the amount of assistance to be committed. **Completion point**: Point at which the country receives the bulk of its assistance under the HIPC Initiative, without any further policy conditions. Under the enhanced HIPC Initiative, the timing of the completion point is linked to the implementation of preagreed key structural reforms (i.e., floating completion point). **Amount committed**: Amount of HIPC assistance determined, in consultation with the World Bank, at the decision point to be made available by the IMF. **Amount disbursed**: Resources disbursed to the member to help meet debt-service payments to the IMF. Disbursements are normally dependent on receipt of sufficient financing assurances from other creditors.

[1]Includes interest on amounts committed.

[2]Original HIPC decision point.

[3]Includes commitment of additional enhanced HIPC assistance of SDR 10.93 million subject to receipt of satisfactory financing assurances from other creditors.

[4]Equivalent to the committed amount of $22.5 million at decision point exchange rates (March 17, 1998).

Box 5.5
Social Aspects of IMF Financing

By pursuing its mandate to promote global monetary cooperation, the balanced growth of international trade, and a stable system of exchange rates, the IMF contributes to long-lasting economic and human development. The IMF recognizes that to be successful, a macroeconomic program must include policies that directly address poverty and social concerns. The reason for attention to social policy issues is twofold: it reflects the recognition both that "country ownership" is necessary if the programs are to succeed, and that good health and education contribute to, and benefit from, growth and poverty reduction.

The IMF is committed to integrating poverty and social impact analysis in programs supported by lending under the PRGF. The purpose of this analysis is to assess the implications of key policy measures on the well-being of different social groups, especially the vulnerable and the poor.

When analysis indicates that a particular measure (for example, currency devaluation) may harm the poor, the impact is addressed through the choice or timing of policies, the development of countervailing measures, or social safety nets. Safety nets built into IMF-supported programs have included:

- subsidies or cash compensation for particularly vulnerable groups;
- improved distribution of essential commodities, such as medicines;
- temporary price controls on some essential commodities;
- severance pay and retraining for public sector employees who have lost their jobs; and
- employment through public works programs.

In pursuing this aspect of its work, the IMF collaborates extensively with other institutions, including regional development banks, the United Nations Development Program, the International Labor Organization, the World Health Organization, and especially, as mentioned, the World Bank. Drawing on these institutions' expertise, the IMF advises countries on how social and sectoral programs aimed at poverty reduction can be accommodated and financed, both domestically and externally, within a growth-enhancing macroeconomic framework. It does so by identifying unproductive spending that should be reduced to make more money available for basic health care and primary education. At the same time, it highlights key categories of public spending that must be maintained or increased. Through policy discussions and technical assistance, the IMF also plays a role in improving the transparency of governments' decision making and their ability to monitor poverty-reducing spending and social developments.

from around 6 percent of GDP on average in 1999 to about 8½ percent in 2002, more than three times the amount of debt service (Boxes 5.5 and 5.6).

- By the end of April 2003, 8 countries had reached their completion points under the enhanced HIPC Initiative and received a reduction in the stock of debt. (Not all the envisaged debt relief has been delivered to these countries.)
- Another 18 countries have passed their decision points and begun to receive interim debt relief on a flow basis. Some of these countries have experienced delays in reaching their completion points, owing to the time needed to prepare high-quality PRSP plans, program interruptions, and slower-than-expected implementation of other completion point triggers.
- As expected, it is proving difficult to make progress in bringing the 12 countries remaining to be considered under the Initiative to their decision points, particularly because most of them have been affected by armed conflicts.

Debt indicators for a number of countries have worsened because of the weakened global economic environment. The HIPC Initiative has flexibility to provide additional debt relief at the completion point, if a country has suffered a fundamental change in economic circumstances owing to exceptional outside shocks. (At the request of both the World Bank and IMF Executive Boards, the IMF staff has undertaken further analysis of the costs and benefits of different calculations of "topping up" HIPC relief at completion points.) But, more generally, the economies of many HIPCs will continue to remain vulnerable to both domestic and external shocks. In addition to HIPC debt relief, the achievement and maintenance of a sustainable debt situation will require sound economic policies, good governance, and prudent debt management, as well as sufficiently concessional terms for all new financing. The IMF provides technical assistance in this regard (almost 17 person-years of HIPC-associated field delivery in FY2003); see Chapter 6. For details of the IMF's own financial contributions as well as the bilateral contributions from 94 countries, see "Financing of the HIPC Initiative and PRGF Subsidies" in Chapter 8.

Looking beyond the HIPC Initiative, IMF staff are developing an analytical framework for assessing debt sustainability in low-income countries, to complement the new procedures adopted during the financial year for other IMF members (see Chapter 2). In this context, staff will be working with the World Bank and interested partner agencies to reach a consensus on the ways in which debt sustainability concerns should be reflected in the design of these countries' financing strategies and the programs supported by the IMF—including decisions on borrowing limits and the appropriateness of loan versus grant financing.

Trade and Market Access

An essential element of the fight against world poverty is a greater effort to ensure that developing countries

Box 5.6

HIPC Initiative Debt Relief at Work in Ghana

Citizens of Ghana can assess for themselves how their country is benefiting from participation in the enhanced Heavily Indebted Poor Countries (HIPC) Initiative—because the authorities are publicly signposting some of the results of Ghana's HIPC involvement (see photograph in Highlights, page iii). As construction projects funded by HIPC relief have started, authorities have erected signs at the sites that designate the projects as HIPC Initiative benefits. Ghanaians therefore see, at an early stage, physical evidence that the $2.2 billion in HIPC assistance committed by all the country's creditors is producing tangible results and is not merely a ledger entry in the government accounts, thereby increasing a sense of public ownership of the country's poverty reduction strategy.

Ghana reached its HIPC "decision point" in February 2002, which means that the country has established a track record of adjustment and reform under IMF- and World Bank-supported programs and has been formally named as eligible for HIPC relief. By attaining its decision point, Ghana took a large stride toward reaching the final stage of qualification for full HIPC debt relief—its "completion point." At the decision point, Ghana agreed to adopt and implement a poverty reduction strategy developed through a broadly based participatory process. The government duly prepared a Ghana Poverty Reduction Strategy, which was published in February 2003.

At the decision point, Ghana also became eligible for interim debt relief, which is designed to sustain a reforming heavily indebted country until it qualifies for full debt relief at its HIPC completion point. It is this interim debt relief that is at work at the signposted construction sites and project locations around the country. In 2002, Ghana received a total of $276 million in interim HIPC assistance, comprising $10 million from the IMF, $33 million from the World Bank, $214 million from the Paris Club of official creditors, and $19 million from other creditors. Of the interim relief total, the authorities have treated $174 million as assistance that Ghana would have received under traditional debt relief mechanisms, and therefore have used the resources for general purposes. One-fifth of the remaining $102 million is devoted to reducing the stock of domestic debt, leaving just over $80 million earmarked specifically for increasing the level and proportion of spending on poverty reduction.

The Ghanaian authorities have specified that the country's poverty-related spending for the period 2001–03 will be devoted primarily to basic education, with funds also allocated to primary health care, agriculture, rural water supply and sanitation, feeder roads, and rural electricity provision.

secure improved market access for their exports and that trade-distorting subsidies are phased out. While action by industrial countries will be particularly important in this regard, developing countries will also benefit from a reduction of their own trade barriers. The IMF's work on trade issues during the financial year included Board discussion of a report on progress with the Doha agenda (Box 5.7); a review of the IMF's trade policy advice during the remainder of 2003; a greater focus in IMF surveillance on market access issues facing developing countries; and fuller inclusion of trade policy considerations in PRSPs. To enrich the last effort, joint PRSP learning events were planned with the World Bank and through the Integrated Framework for Trade-Related Technical Assistance to LDCs.

The IMF has also cooperated with the World Trade Organization (WTO) on ways to enhance the coherence of the work of the two organizations, and stood ready to contribute to developing proposals for an agricultural trade agenda for Africa.[2] The IMF staff has also provided the WTO with its analytical perspective in the Fund's areas of expertise on certain proposals for special and differential treatment.

Monitoring Progress Toward the Millennium Development Goals

At its Spring 2003 meeting, the Development Committee of the IMF and World Bank considered a framework, prepared jointly by World Bank and IMF staff, for regular monitoring, in the areas of Bank and IMF institutional mandates, of the main policies and actions that developing and industrial countries are implementing to promote the achievement of the MDGs and related development outcomes.

As proposed, the approach would assess the adequacy of policies, institutions, and governance in developing countries; the macroeconomic, aid, and trade policies of developed countries, which are essential for fostering the global partnership for development envisaged under Goal Eight of the MDGs; the quality and effectiveness of development assistance; and the effectiveness of the international financial institutions in promoting a strong global economic environment and supporting country efforts to meet their development goals. The approach was designed to complement and support the work of the United Nations and other agencies in monitoring progress toward the achievement of the MDGs.

[2]Proposals for such an agenda were made by President Chirac of France (also president of the G-8) at the 22nd conference of Heads of State of Africa and France on February 21, 2003, and covered harmonization of G-8 preferential trading regimes for sub-Saharan Africa; ensuring that OECD agricultural export support policies do not disrupt local production; and reducing the vulnerability of the poorest producers to commodity price volatility. The IMF has been requested to participate in a G-8 working group on the last topic.

Box 5.7
Improving Market Access for Developing Countries' Exports

The multilateral trade negotiations launched at the World Trade Organization (WTO) in late 2001 were termed the *Doha Development Agenda* to signify the importance of the role that developing countries and development objectives would play in the multilateral trading system. This role, however, depends on industrial countries lowering trade barriers and reducing trade-distorting subsidies, thus improving market access to the exports of developing countries. While the world's trading system is far more liberal than it was 40 years ago, it still discriminates against the poor, partly because they work in sectors such as agriculture that are most affected by industrial-country tariffs and subsidies.

Executive Directors considered a joint IMF–World Bank staff report, "Market Access for Developing Country Exports—Selected Issues," in September 2002. They agreed that the levels of protection in Organization for Economic Cooperation and Development (OECD) countries came at considerable cost both to the OECD countries and to developing countries. The Board noted that the estimated global welfare gains from the elimination of tariff and quota restrictions on merchandise trade—in both industrial and developing countries—ranged from $250 billion to $680 billion annually, with the gains to developing countries far outweighing annual aid.

At a September press conference marking the public release of the report, Nicholas Stern, Chief Economist of the World Bank, embodied the report's findings in more vivid terms. The average European cow, Stern said, receives about $2.50 a day in subsidy; the average Japanese cow about $7.50. In contrast, 75 percent of the people living in sub-Saharan Africa subsist on less than $2.00 a day. Kenneth Rogoff, Economic Counsellor and Director of the IMF's Research Department, was equally critical, calling the magnitude of support given to farmers in rich countries "stunning."

Support for reducing trade barriers also came from the IMFC, which said in its September communiqué that substantial trade liberalization in the Doha Round was vital for global growth. Urgent progress in enlarging market access for developing countries and phasing out trade-distorting subsidies in developed countries was essential, the Committee pointed out. Developing countries, for their part, should also further liberalize their trade regimes to maximize growth and development opportunities.

At the Annual Meetings in September 2002, the IMF and World Bank sponsored a seminar to discuss how developing countries could use trade to promote their development and how industrial countries might help them take advantage of the opportunities created by the global trading system. Panelists—representatives from academia, the World Bank, nongovernmental institutions, and both industrial and developing country governments—concluded that any easing of trade barriers must happen multilaterally, with reciprocal north-south negotiation during the Doha Round, and that global trade liberalization, despite concerted international efforts, would be a long, drawn-out process.

Looking Ahead

As part of the IMF's ongoing monitoring of its assistance, early in FY2004 the Board will review the ways in which the Fund engages with low-income countries. One aspect will be the role of the IMF in low-income countries over the medium term and its help to members (especially low-income countries) dealing with shocks. Another aspect will be how IMF assistance to low-income countries can best balance its commitment to supporting the PRSP process and the achievement of the MDGs with the need to preserve the IMF's focus and effectiveness, as well as the concerns underscored by the IMF's Independent Evaluation Office about the impact of prolonged IMF financial engagement on the Fund and its members. Major issues of concern include the appropriate time frame for IMF engagement; consequences of the linkage of many forms of donor assistance to the existence of an IMF arrangement; and ways in which the IMF can signal its views to donors on countries' economic policies in cases where there may be little need for the use of IMF resources.