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IMF–World Bank spring meetings

Ministers to focus on sustaining global recovery

When the world's top financial officials meet at the IMF's headquarters on April 24, a strengthening global economy will provide the backdrop for discussions on sustaining the recovery, sharpening IMF surveillance, strengthening the prevention and resolution of crises, and enhancing IMF support for low-income member countries.

Under the chairmanship of U.K. Chancellor of the Exchequer Gordon Brown, the International Monetary and Financial Committee (IMFC)—whose 24 governors represent constituencies or groups of countries corresponding to the IMF's Executive Board—is expected to stress the opportunities that a growing global economy can present. In this context, the IMFC is likely to examine the concerted and collaborative steps that can be taken to give solid momentum to the recovery, manage risks more effectively, and bolster country resilience.

More specifically, IMFC discussions are expected to follow up on issues raised during the 2003 annual meetings in Dubai and to set out an agenda for the lead-up to the 2004 fall meetings in Washington, D.C. Among the topics likely to be reviewed are improvements in the tools used to assess policy and conduct IMF surveillance, progress in identifying vulnerabilities early, and measures that could be taken to better define the IMF's role in low-income countries, including a proposed debt sustainability framework. In addition, there will be progress reports on efforts to combat money laundering and the financing

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Interview with Mark Allen

IMF needs to do far more to help countries learn from each other's successes and failures

Allen: "We still need to achieve a stronger internal consensus on the role of IMF financing in crisis resolution—that is, when it's appropriate for us to intervene."

Mark Allen, a U.K. national, took over the reins as Director of the IMF's Policy Development and Review (PDR) Department in December 2003. After joining the IMF in 1974, he gained experience with member countries worldwide, serving chiefly in PDR (and its earlier incarnations), but also doing stints in the African Department and as Senior Resident Representative in Poland and Hungary. Laura Wallace spoke with him about the IMF's efforts to inject more stability into the global economy by better staving off financial crises and resolving those that do occur more quickly and less painfully.

IMF Survey: At last year's Annual Meetings, the IMF was called upon to improve the quality, effectiveness, and persuasiveness of its surveillance. Anything to report?

Allen: We've been making a major effort to strengthen our annual consultations with member countries, bringing in a number of new elements—the balance sheet approach; a greater emphasis on the financial sector, drawing on internal vulnerability exercises; standards and codes of best practices; and more analysis

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Debt sustainability on spring meetings agenda

(Continued from front page) of terrorism; initiatives on crisis resolution; developments on IMF quotas, voice, and representation; and the activities of the Independent Evaluation Office. A press conference by Acting Managing Director Anne Krueger and IMFC Chair Gordon Brown will conclude the IMFC proceedings.

The IMFC meeting will be followed on April 25 by a session of the Development Committee—a joint committee of the IMF and the World Bank governors. The Development Committee agenda is expected to be topped by the Global Monitoring Report on progress made toward achieving the UN Millennium Development Goals (MDGs). The discussion, which is scheduled to be chaired by Trevor Manuel, South Africa's Minister of Finance, is likely to also take up the background paper "Education for All" and a report on financing modalities for the MDGs. The Development Committee, like the IMFC, is expected to discuss the proposed framework for long-term debt sustainability for low-income countries.

A number of events will take place in advance of the formal IMF–World Bank spring meetings. Among these are the release, on April 21, of the IMF's latest *World Economic Outlook* and, on April 23, the meeting of the ministers of the Group of 24, representing developing countries, under the chairmanship of Conrad Enill, Trinidad and Tobago's Minister of Finance.

For additional information about the spring meetings, please see the IMF's website (*www.imf.org*). ■

IMF and ECOSOC officials refine agenda for Monterrey Consensus follow-up

Among those attending the preparatory meeting from the IMF were, left to right, Executive Director Willy Kiekens, Deputy Managing Director Agustín Carstens, IMF Special Representative to the UN Reinhard Munzberg, Executive Director Nancy Jacklin, Senior Advisor to Executive Director Siradiou Bah, and Executive Director Moises Schwartz.

On March 23, a delegation of UN Economic and Social Council (ECOSOC) ambassadors met with members of the IMF's Executive Board, management, and senior staff to discuss the format and specific themes of a formal April 26 meeting that will also involve the World Bank, the World Trade Organization, and representatives from other agencies and civil society. The formal meeting, which will take place at UN headquarters in New York and is the seventh such annual gathering, will this year focus on bolstering implementation of the Monterrey Consensus—commitments made in 2001 for developing countries to improve macroeconomic and financial policies and for the international community to mobilize more international resources for the fight against poverty.

The informal preparatory session heard first from Finnish Ambassador Marjatta Rasi, President of ECOSOC, who explained that the theme of the April meeting—"Coherence, Coordination, and Cooperation in the Implementation of the Monterrey Consensus"—took its inspiration from the UN General Assembly's desire to ensure effective follow-up to commitments made in Monterrey, Mexico. The April meeting will focus on three specific issues: the impact of private investment and trade in development financing, the role of multilateral institutions in reaching the UN Millennium Development Goals, and debt sustainability.

The IMF participants confirmed that Deputy Managing Director Agustín Carstens and a broad representation of Executive Directors will attend the April 26 meeting. They also emphasized that cooperation between the IMF and ECOSOC—and the United Nations more broadly—should continue to be pragmatic and mutually supportive, with each institution focusing its energies on its own area of expertise and specific mandate. The coordination of postconflict efforts in Burundi and Guinea-Bissau—in which the United Nations took the lead in addressing political and security concerns, and the IMF and the World Bank contributed to broader efforts to restore economic stability and growth—was seen as an example of effective cooperation.

The ECOSOC President will produce a summary of the outcome of the April meeting; this will be posted on the ECOSOC website (*http://www.un.org/esa/coordination/* ecosoc).

Finnish Ambassador and President of ECOSOC Marjatta Rasi addresses the informal meeting. To her right is Bhutan Ambassador and Vice President of ECOSOC Daw Penjo.

IMF's new tools for crisis prevention

(Continued from front page) of the impact of a country's policies on others in a given region. All of these elements give countries the tools to become more resilient to crises. In addition, there have been a number of calls for the surveillance process to take a fresh look at countries' policies, particularly those countries that have had IMF arrangements over an extended period of time. It also would be helpful if we could better disseminate our knowledge of the experiences of other countries in our surveillance.

IMF SURVEY: Can countries, in fact, learn from each other, or do they really learn only from their own mistakes? What should be the IMF's role in disseminating lessons learned?

ALLEN: Confucius said there are three ways to learn wisdom: "First, by reflection, which is noblest; second, by imitation, which is easiest; and third, by experience, which is the bitterest." Now, can countries learn from others? I think it has to be a tenet of faith of the IMF that they can. We sit on this wealth of experience, and we can be fairly criticized for not utilizing it more effectively in our surveillance process. Would countries actually listen? Countries are unique, but it is up to the mission chief to be effective in explaining that there are things to be learned from the way other countries have tackled similar problems—both their successes and their mistakes. Very often we do find receptive ministers of finance and central bank governors who are wrestling with problems they know others have faced, and they look to us for that experience. This is something that we ought to do far more of—it should be a more central feature of our surveillance work.

IMF SURVEY: You mentioned a new "balance sheet" approach to analyzing countries' economies. What does this mean in plain English?

ALLEN: The nature of financial crises has changed over the past 15 years, so we've been trying to understand better the genesis of these crises—what causes them, how they unfold, and what you can do to prevent them. The key element is that these are crises in which creditors lose confidence in some part of the debtor economy. It may be that they lose confidence in the solvency of the government. They may lose confidence in the banking system. They may lose confidence in the corporate sector's ability to pay its debts. The balance sheet approach complements our traditional approach of looking at the flow variables in the economy—how the economy is moving over time—with one that looks at the strength of the various balance sheets in the economy and how these interact. And if some balance sheets are weak and creditors lose confidence in these sectors, what impact will this have on other sectors? This approach improves our capacity to understand the course of a crisis and provides some framework for vulnerability analysis, so that we can strengthen our ability first to prevent and then to intervene effectively in crises.

IMF SURVEY: Have we used this new approach for a country?

ALLEN: Yes, in a number of recent cases—such as Ecuador, Peru, and Thailand. Indeed, this new approach has helped give useful insight into these countries' situations. It's part of a more general process to understand financial stability, and we see most of the industrial countries now producing financial stability reports of one sort or another. What we are doing is trying to formalize and generalize this process for a broader part of the membership, especially emerging market economies.

IMF SURVEY: How about crisis resolution? Is there anything new to report?

ALLEN: We still need to achieve a stronger internal consensus on the role of IMF financing in crisis resolution—that is, when it's appropriate for us to intervene. Part of the problem is the absence of a consensus at the Executive Board on this issue. We've been trying to improve our analytical tools, including better debt sustainability analyses and clearer procedures for exceptional access—that is, cases when individual countries need to draw very large amounts. There will always be risks in IMF lending, but we need a better handle on the risks we are taking—the timing, the size of packages, and the policy measures that are required, particularly to regain creditor confidence.

As for crises where there needs to be a speedy resolution of debt difficulties with creditors, we've made some progress in the area of collective action clauses. These clauses are now being used more widely. The debate on the Sovereign Debt Restructuring Mechanism [SDRM] has been shelved for the time being. We'll have to see, as we gain more experience—and obviously Argentina's negotiations with its creditors are going to be a key source of experience—what more needs to be done.

A speedy agreement with creditors is very helpful to the country, and I see no reason for reversing that judgment yet. What we're seeing in Argentina, as time moves on, is more litigation of one sort or another. This split in the creditor community may not bode well for a speedy and comprehensive resolution of that country's debt problems.

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—Mark Allen

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IMF Survey: In Argentina's case, would an SDRM have made a difference?

Allen: The SDRM would have provided a framework for expectations on how the problem would be resolved. But it would be an illusion to think that such a mechanism would have resolved all of Argentina's problems with its creditors.

IMF Survey: In recent years, there has been a proliferation of initiatives aimed at helping low-income countries—a rethought concessional loan facility, poverty reduction strategy papers [PRSPs], enhanced debt relief for the heavily indebted poor countries, post-conflict strategies, and, now, a new debt sustainability framework. Do these add up to a coherent role for the IMF in low-income countries?

Allen: I certainly hope so. The IMF is deeply involved in its developing member countries. The IMF clearly has a role in helping countries improve the quality of their policymaking, strengthening some of the fundamental institutions for managing the economy, and helping them integrate sound macroeconomic and stable financial policies with strategies for development and poverty reduction. In other words, ensuring the consistency of this policy set.

The IMF also has a financing role, but not to finance development itself. Rather, it's to help countries get through difficult periods, especially outside shocks—thereby saving the country from being forced into an adjustment that may very well worsen poverty and retard development. At the same time, however, we have to recognize that these countries—especially the poorest of them—have very limited capacity to service debt. While the IMF has concessional resources, they cannot be made sufficiently concessional for these most fragile countries. Rather, these countries need to mobilize other forms of financing, particularly grants.

IMF Survey: What is the IMF doing to convince countries of the merits of trade liberalization?

Allen: We believe that the single most important thing that could be done to help foster the development process is further trade liberalization by both rich and poor countries under the Doha Round. We have been concerned about the stalling of the round, and as you know our former Managing Director and the President of the World Bank have written to heads of government around the world with some proposals for reinvigorating it. Some countries are concerned that if liberalization takes place under this round, they may suffer at least a temporary worsening in their balance of payments. For that reason, the IMF recently agreed on a "trade integration mechanism," which will enable it to support countries that face loss of preferences in the multilateral trade liberalization process.

IMF Survey: You've worked at the IMF for a long time now. What do you think are its greatest strengths and weaknesses?

Allen: One strength is an institutional structure that allows the IMF staff to have a regular dialogue with member countries. A second strength is the dedication and quality of the staff. A third is that when there is a crisis, we move really quickly. On the weakness side, the flip side of the last strength is that without a crisis in a member country, things do take quite a long time to change. Another weakness is that staff are a bit inward looking, with a "not invented here" syndrome—in other words, we're not always as open as we could be to work being done elsewhere. We could strengthen our work with a better understanding of some of the insights that political science and anthropology afford.

IMF Survey: The IMF is often criticized for being either too soft or too tough, and sometimes even a bit of both with the same country at different points in time. Do you think this is true?

Allen: We certainly make mistakes. Sometimes we make mistakes by being too tough, sometimes by not being tough enough. The real temptation is to be not tough enough, even if you have a clear goal in mind. Certainly, there are significant pressures to accommodate. That might occur because of an identification of IMF staff with the country policymakers and a very real appreciation of the difficulties those policymakers are facing. But the IMF's effectiveness isn't judged on the basis of its empathy with policymakers but on whether it has supported policies that worked and not those that failed.

IMF Survey: From the vantage point of a department responsible for evaluating and formulating the IMF's policies and procedures, what do you think of the external Independent Evaluation Office's [IEO] first three reports? Are the recommendations changing the way the IMF goes about its business?

Allen: The reports are very good for us. They have been very well researched and are very professional. For a small staff, the IEO has done an extraordinary job. In some cases, it's given a new spin to problems by asking questions that IMF staff find it awkward to ask. In other cases, it's highlighted things that we already knew, spurring us into action where we might have let matters rest. For example, the study on prolonged use of IMF resources reinforced the idea that surveillance should take a fresh perspective on countries' problems. As a result, we've established a system of ex post assessments after a number of years of prolonged use, which has great potential for improving the quality of our decision making. Another case has been the fiscal report, which noted that we were often not sufficiently clear about how the fiscal adjustment in a program fitted into the macroeconomic objectives. This was a justified criticism. In other areas, the IEO has reminded us about the overoptimism of the growth projections in IMF program documents, and this is a matter that we're planning to take up in our conditionality review.

IMF Survey: Over the past three years, Brazil, Turkey, and Argentina accounted for over two-thirds of general borrowing from the IMF. Does the IMF have sufficient resources to cope with future threats to the stability of the international financial system? Does this concentration put the IMF at the mercy of its biggest borrowers? Some critics argue that Argentina has been able to exploit this apparent weakness.

Allen: It's a very expensive business to help emerging markets through capital account crises, and this has led to very large exposures of the IMF to several countries—currently, Argentina, Brazil, Turkey, and, for the size of its economy, Uruguay. At the moment, we do have the resources to handle crises in middle-income countries. But global financial stability depends on far more than just what happens in these countries, and we don't have the financial resources to handle crises in industrial countries or, more broadly, in world markets. What can we do about the IMF's very high exposure to a few countries? One thing is to improve our decision making when such an operation is contemplated. While we have to be careful, we can't let our lending operations and our conditionality be held hostage to a fear of arrears. For that reason, we also need to have adequate precautionary balances, which is why the Executive Board recently decided to increase these balances.

IMF Survey: Looking ahead, what do you think should be the IMF's top priorities?

Allen: There are three top priorities for the IMF in my view. The first is to monitor vulnerabilities in the world economy, in the financial system, and individual countries and come up with concrete proposals for actions to correct vulnerabilities. This is where a better dissemination of experiences fits in. The second is to improve the effectiveness of our crisis intervention—whether it be through improving how IMF financial assistance is provided or trying to ensure that mechanisms exist for getting debtors and creditors to resolve their problems quickly.

Following the upcoming spring meetings, we plan to discuss the role that precautionary arrangements can play in preventing capital account crises and the access that is required for this insurance to be meaningful. In other words, we'll be looking for a successor to the recently ended Contingent Credit Line Facility. The third is to help create the conditions for development and achieving the Millennium Development Goals, which requires close integration with donor countries in supporting the PRSP process. ■

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Available on the web (www.imf.org)

Press Releases

04/59: IMF Executive Board Completes Sixth Review of Brazil's Stand-By Arrangement, March 26

04/60: IMF Mission Statement on Discussions in Serbia and Montenegro, March 29

04/61: IMF Acting Managing Director Krueger Proposes Rob Edwards as Director of the IMF's Statistics Department, March 29

04/62: IMF Approves 12-Month Stand-By Arrangement for Ukraine, March 29

04/63: IMF Completes Review Under Benin's PRGF Arrangement and Approves $2 Million Disbursement, March 29

04/64: Statement by the G-11 Executive Directors of the IMF on the Selection Procedures for Appointing the IMF Managing Director, March 31

04/65: IMF Executive Director Shaalan Nominates Three Candidates for the Post of Managing Director of the IMF, March 31

04/66: Statement on the Second Forum on Poverty Reduction Strategies for the Balkans, March 31

04/67: IMF Statement on the Conclusion of 2004 Article IV Consultation Discussions with Zimbabwe, March 31

04/68: Kiribati Formally Begins Participation in the IMF's General Data Dissemination System, April 1

04/69: IMF Staff Statement on the Delay in the Completion of the Fourth Review of Azerbaijan Republic's PRGF Arrangement, April 1

04/70: IMF, World Bank Enhance Efforts at Combating Money Laundering, Terrorist Financing, April 2

04/71: IMF Executive Board Completes Second Review of Jordan's Stand-By Arrangement, April 2

Public Information Notices

04/23: IMF Concludes 2003 Article IV Consultation with Djibouti, March 19

04/24: IMF Concludes 2003 Article IV Consultation with Portugal, March 22

04/25: IMF Concludes 2003 Article IV Consultation with Jamaica, March 23

PRGF=Poverty Reduction and Growth Facility