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NEWS: De Rato pledges support for Palestinian reforms

Taking a brief diversion from a visit to the Maghreb, Rodrigo de Rato attended the March 1 London meeting in support of Palestinian efforts to build a viable state and pledged enhanced IMF technical support. Citing recent steps by Palestinian and Israeli authorities to revive the Middle East peace process, de Rato called on the international community to use this window of opportunity to back President Mahmoud Abbas' (right) reforms.

François Lenoir/Reuters

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TECHNICAL ASSISTANCE: IEO releases report

Every year, the IMF spends about $80 million on technical assistance to help member countries strengthen their macroeconomic and financial sector policies and boost institutional capacity. But is it money well spent? Are monitoring and evaluation efforts really ensuring that lessons are learned quickly and well? The IMF's Independent Evaluation Office (IEO) examined the IMF's technical assistance. Marcelo Selowsky, head of the team, explains what the IEO found and the changes it recommends.

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FORUM: How to get growth going

How much do institutions matter for growth? In the long run, quite a lot, said leading scholars in the development field at a recent IMF symposium. But that's where the consensus ended, as the panelists debated the impact of institutions on short-term growth, examined the usefulness of microeconomic experiments for macroeconomic work, and traded ideas and strategies for igniting and sustaining growth in low-income countries. IMF Research Department Division Chief Arvind Subramanian (right) moderated the event.

Michael Spilotro/IMF

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RESEARCH: Postconflict economics in Africa

How do countries emerge from years of conflict and achieve peace and economic growth? *Postconflict Economics in Sub-Saharan Africa*, a new IMF book, looks primarily at the experience of the Democratic Republic of the Congo but draws lessons for other postconflict situations. The book underscores the importance of macroeconomic stabilization in the immediate aftermath of conflict, as well as sequenced aid flows over a sustained period of time.

Marco Longari/AFP/Getty Images

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What's on

March

14–15 IMF–DfID–InWEnt High-Level Seminar on "Foreign Aid and Macroeconomic Management," Maputo, Mozambique

14–18 UNCTAD Commission on Trade, 9th Session, Geneva, Switzerland

16 OPEC 135th Meeting of the Conference, Isfahan, Iran

16–18 International Atomic Energy Agency International Conference on Nuclear Security, London

16 IMF seminar with civil society organizations, Dili, Timor-Leste

17–18 IMF seminar for legislators, Dili, Timor-Leste

20–21 OECD: China in the World Economy: China Development Forum 2005, Beijing, China

21–22 International Atomic Energy Agency International Conference on Nuclear Power for the 21st Century, Paris, France

24–25 IMF seminar for legislators, Phnom Penh, Cambodia

April

5 IMF's *Global Financial Stability Report* (April 2005) released

8 IMF Book Forum, Thomas Friedman, *The World Is Flat: A Brief History of the 21st Century*, Washington, D.C.

10–12 Inter-American Development Bank Annual Meeting, Okinawa, Japan

13 IMF's *World Economic Outlook* (Spring 2005) released

16–17 2005 Spring Meetings of the IMF and the World Bank Group, Washington, D.C.

18 ECOSOC High-Level Meeting: IMF, World Bank, WTO, and UNCTAD at UN Headquarters, New York

18–20 Asian Development Bank, International Conference on Achieving Results in the Private Sector, Manila, Philippines

19–20 IMF High-Level Seminar on "Asset Securitization and Structured Finance," Washington, D.C.

20–22 World Bank Civil Society Global Policy Forum, Washington, D.C.

20–22 WTO Public Symposium, "WTO After 10 Years: Global Problems and Multilateral Solutions," Geneva, Switzerland

May

4–6 Asian Development Bank Annual Meeting, Istanbul, Turkey

18–20 IMF seminar for legislators and journalists, San Jose, Costa Rica

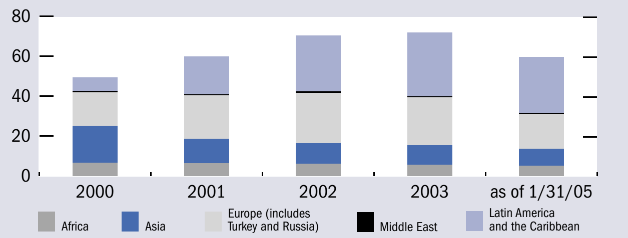
18–19 African Development Bank Annual Meeting, Abuja, Nigeria

IMF Executive Board
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp.*

At a glance

IMF financial data

Total IMF credit and loans outstanding, by region
(billion SDRs, end of period)

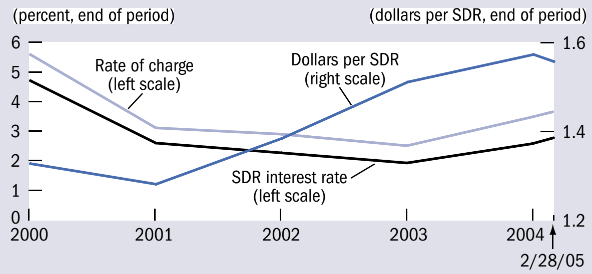


Major currencies, rates per SDR
(end of period)

	February 2005	Year ago
Euro	1.156	1.192
Japanese yen	160.445	161.328
U.K. pound	0.797	0.800
U.S. dollar	1.532	1.480

IMF available resources
(one-year forward commitment capacity, billion SDRs)

Related rates
SDR interest rate, rate of charge on IMF nonconcessional loans outstanding, and dollars per SDR



Note on IMF Special Drawing Rights
Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

De Rato vows IMF support for Palestinian reforms, urges stronger economic cooperation in Maghreb region

IMF Managing Director Rodrigo de Rato pledged enhanced IMF support for the Palestinian National Authority's efforts to build sound economic and financial institutions and improve the economy at a London meeting on March 1. "We are now at a critical juncture, and the international community should stand ready to fully support Palestinian reforms to strengthen governance and promote economic development," de Rato said at the meeting hosted by the U.K. government and attended by foreign ministers from 23 countries. Participants agreed to help the Palestinian Authority strengthen its governing institutions, combat corruption, and unify its security forces. They also pledged up to $1.2 billion toward the reform efforts.


Jean Blondin/Reuters

Morocco's Prime Minister Driss Jettou (left) speaks with Rodrigo de Rato in Rabat.

Taking a brief diversion from a trip to the Maghreb region, de Rato told meeting participants that on top of the enormous human cost, the past four years of conflict have dealt a severe blow to the Palestinian economy. Real per capita income has dropped by 35 percent, unemployment remains high at 26 percent, and about half of the Palestinian population lives in poverty. This has led to a grim fiscal situation, which is highly dependent on external budget support.

But despite the difficult environment, de Rato noted, the authorities have continued to implement reforms and improve transparency and accountability in public finances. He welcomed President Mahmoud Abbas' reform program to improve public services and create a more transparent environment for investment decisions. He said the reforms will require a large amount of external financing to cover budget shortfalls, repay commercial bank debt and arrears, and finance pensions, social safety nets, and the restructuring of security agencies.

Enhanced IMF technical assistance, including through the IMF's Middle East Technical Assistance Center in Beirut, will focus on modernizing tax administration, strengthening the customs office, and improving the payments system and banking intermediation to facilitate private sector development. The Palestinian National Authority is not a member of the IMF and hence is not eligible for financial support. However, at the request of the international donor community, the IMF has worked closely with the Authority on fiscal and monetary policy issues and has provided regular reports on the fiscal position.

Maghreb visit

Morocco. Before going to the London meeting, de Rato had traveled to Morocco on February 28 as part of a three-country visit to the Maghreb region. In discussions with the authorities, he called for stronger regional cooperation to buttress the benefits from multilateral trade liberalization. He also proposed a regional seminar on trade facilitation. De Rato welcomed the authorities' continued efforts to reinforce social cohesion, which is essential for economic development. Although Morocco has maintained macroeconomic stability since the early 1990s, economic growth remains insufficient to reduce unemployment and poverty.

De Rato encouraged the authorities to accelerate structural reforms, maximize the benefits of trade integration, and consolidate the fiscal position. On the potential impact of the end of preferential trade arrangements in textiles, he agreed with the authorities that Morocco's strong balance of payments position could absorb a possible shock to textile exports.

Algeria. In Algiers on March 2, de Rato commended the country's progress over the past decade in moving to an open, market-based economy. However, he added, "major challenges remain, in particular to quicken the pace of sustainable growth and to reduce the high level of unemployment." He encouraged the authorities to use the window of opportunity created by the strong financial position and greater political stability to tackle the challenges ahead—including by sound management of the hydrocarbon wealth and decisive structural and institutional reforms, with the financial sector a priority.

Tunisia. In Tunis on March 3, de Rato praised Tunisia's reform efforts over the past decade, which have led to improved economic growth and social conditions. He also said the country needed to further increase growth and reduce unemployment through greater liberalization and improvements in the business climate. He agreed with the authorities that exports will continue to be the cornerstone of Tunisia's development strategy and that the recent expiration of the Multifiber Agreement on Textiles constitutes an additional reason to quicken the pace of economic reform. In preparing for gradual liberalization of the external capital account, he said, the authorities should also strengthen fiscal, monetary, and exchange rate policies. He commended Tunisia for taking ownership of its reform policies and for the high degree of transparency. ■

Afghanistan's economy grows, but so does poppy production

After more than two decades of conflict, interspersed with earthquakes and drought, the economy of the Islamic State of Afghanistan has grown relatively strongly since 2001, albeit from a very low base, the IMF said in its annual economic assessment. Bad weather conditions have slowed agricultural output over the past 18 months, but other sectors, especially construction and services, have benefited from buoyant demand. Poppy production, however, continued to rise in 2004, and the Afghanistan component of illicit drug revenue is estimated at $2.8 billion, the equivalent of about 60 percent of the country's nondrug GDP. The IMF's Executive Board cautioned that this development could jeopardize security as well as macroeconomic stability and supported recent government and international efforts to develop a multipronged strategy to deal with the opium economy.

In 2004, the authorities started to implement a long-term strategy to build a financially self-sustaining state that could meet basic social needs and address poverty. Their medium-term objectives are to increase security, promote private sector-led growth, strengthen revenue efforts, eliminate the drug economy, and further institution building. The central bank's flexible monetary policy approach, which relies on a managed float, has been largely successful in limiting inflation and exchange rate volatility.

The Board credited the current economic program, closely monitored by the IMF, with helping to maintain the reform momentum and lay the foundation for a possible IMF-supported program. Because the government's reform strategy is predicated on continued donor support and well-coordinated technical assistance, the Board urged the donor community to fulfill its financial pledges. ■

Afghanistan	2001/02	2002/03	2003/04	2004/05
		Estimates		Projections
		(percent)		
Real GDP growth (excluding opium)	. . .	29.0	16.0	8.0
		(U.S. dollars)		
GDP per capita (excluding opium)	123.0	182.0	199.0	228.0
		(percent)		
CPI (Kabul, annual change)	–43.4	52.3	10.3	10.2
		(percent of GDP)		
Current account (including grants)	...	–2.1	–1.8	–3.4

Data: IMF staff report.

El Salvador's reforms pay off, but external factors dampen growth

Over the past decade, El Salvador's rigorous implementation of a wide range of structural reforms contributed to considerable improvements in the country's per capita income and social conditions. In 2001, the reform effort was capped with official dollarization, which helped reduce interest rates and consolidated low inflation, according to the IMF's annual economic assessment. Nevertheless, economic growth has been sluggish in recent years as a result of high oil prices, natural disasters, deteriorating terms of trade, and the economic slowdown in the United States.

The IMF's Executive Board praised El Salvador's impressive reforms, which include trade opening, privatization, and overhauls of tax policy, the civil service, and the pension system, but noted that the challenge of reviving economic growth remains. It stressed that maintaining dollarization still required additional efforts with a focus on strengthening public finances and achieving debt sustainability. In this context, the new government recently approved tax measures, including steps to improve tax administration, that are projected to raise annual revenue by about 1 percent of GDP. A moderate primary fiscal surplus will be needed to place public debt firmly on a downward path. While it supported the planned increase in social and infrastructure spending, the Board encouraged the authorities to enhance public expenditure management by containing current spending, including the wage bill.

The Board welcomed the government's focus on fiscal consolidation and structural reforms aimed at raising national savings and improving productivity and competitiveness. It encouraged efforts to deepen trade reform, further strengthen the banking system, address infrastructure constraints, increase labor market flexibility, and improve incentives for private investment. To achieve these, the Board added, it will be important to win popular support for the reform agenda. ■

El Salvador	2001	2002	2003	2004	2005
			Preliminary	Projections	
			(percent change)		
Real GDP	1.7	2.2	1.8	1.5	2.5
Consumer prices (end of period)	1.4	2.8	2.5	5.5	2.5
			(percent of GDP)		
Consolidated public sector deficit	4.3	4.6	3.8	2.9	3.1
Public sector debt (end of period)	39.4	43.5	46.1	44.8	46.2

Data: IMF staff report.

Hope rekindled for cooperation, economic progress in the Comoros

Comoros President Azali Assoumani met with Managing Director Rodrigo de Rato on February 24 in Washington, D.C., to discuss the country's commitment to a 12-month staff-monitored economic program for the country and to thank the IMF for its support. Staff-monitored programs are designed for countries that want to establish a track record of improved macroeconomic performance and reform and frequently serve, if they are successful, as a stepping-stone for more ambitious reform efforts and supportive financing under the IMF's Poverty Reduction and Growth Facility.


Michael Spilotro/IMF

Comoros President Azali Assoumani (left) met with IMF Managing Director Rodrigo de Rato.

Comoros is seeking to emerge from nearly a decade of political strife. The country, which consists of three islands that had no common political history before French rule, has seen its post-1975 period of independence marked by political instability, coups, and secessionist efforts. Until recently, tensions between the three island governments and the union government had stymied economic development. With the signing of a transition arrangement in December 2003 and parliamentary elections in March–April 2004, however, there is renewed hope that a lasting political arrangement and sustained economic progress are achievable.

The cornerstones of the reasonably ambitious Comoros program are macroeconomic stabilization—centered around implementation of a consolidated budget for the union and island governments—and fast-track progress on a number of structural reforms, notably privatization of the Comoros Hydrocarbon Company and Comore Telecom by the end of 2005.

Progress will hinge on continued interisland cooperation and a growing realization that coherent economic policies and normalized relations with donors and creditors offer the only way to rekindle growth and obtain debt reduction under the enhanced Initiative for Heavily Indebted Poor Countries. ■

Finland's robust economy faces challenge of aging population

Finland's economy has made impressive strides in recent years, but will face the challenge of population aging earlier than any other country in the European Union, the IMF said in its annual economic assessment. Aided by strong productivity gains, a stable macroeconomic policy framework, low inflation, and sizable fiscal surpluses, the economy weathered the recent global slowdown relatively well, and an improved domestic and external climate is set to strengthen growth. However, structural unemployment remains high, and employment stagnant.

The IMF's Executive Board praised Finland's economic performance but encouraged the authorities to set in motion a virtuous circle of stronger employment, growth, and public finances to address effectively the challenge of an aging population. Comprehensive reforms would reduce the degree of fiscal adjustment needed to ensure long-term fiscal sustainability. Finland's fiscal position has rapidly eroded in recent years, and although it is expected to remain in surplus over the medium term, the long-term prospects are less comforting. Aging-related fiscal pressures are expected to be strong, given the country's comprehensive public welfare system. The Board recommended that the income tax cuts planned for 2005–07 be offset by a reduction in public spending, preferably by improving the efficiency of social and welfare services.

Finland	2001	2002	2003	2004	2005 Projections
			(percent change)		
GDP	1.1	2.3	2.0	3.1	2.9
Domestic demand	1.7	1.3	2.1	2.4	2.5
			(percent of labor force)		
Unemployment rate	9.1	9.1	9.0	8.8	8.3
			(percent of GDP)		
General government balance	5.2	4.3	2.1	2.1	1.9

Data: IMF staff report.

The Board welcomed the significant pension reform being phased in, and called for policy initiatives to raise the employment rate, especially at both ends of the age spectrum, where labor utilization is relatively low. It also encouraged the authorities to strengthen competition in product markets, attract more foreign direct investment, step up public enterprise privatization, and reduce farm subsidies. ■

For more information, see Public Information Notices No. 05/9 (Afghanistan), No. 05/14 (Finland), and No. 05/21 (El Salvador) on the IMF's website (*www.imf.org*).

IEO review

Ownership, better implementation are essential for successful TA

Every year, the IMF spends about $80 million on technical assistance (TA) activities, with close to 70 percent of this money directed to low-income countries. How effective has this investment been? The IMF's Independent Evaluation Office (IEO) recently released its review of the IMF's TA program, which is aimed at helping countries strengthen their policies. Marcelo Selowsky, Assistant Director of the IEO and head of the team that prepared the report, spoke with Christine Ebrahim-zadeh of the IMF Survey *about the IEO's findings and recommendations.*

IMF Survey: The IMF has several times examined the effectiveness of its TA. Does the IEO take a new approach?

Selowsky: We have taken a fresh look in two respects. First, we carefully unbundled the TA process into three stages—prioritization, delivery, and monitoring and evaluation. This enabled us to more clearly identify what must be done to improve effectiveness and analyze the links among the different stages. For example, if we do a better job in monitoring and evaluation, we can feed that information into decisions about future prioritization. Second, we went into the field—to Cambodia, Honduras, Niger, Ukraine, Yemen, and Zambia—to interview over 100 IMF counterparts who were closely involved in the TA process.

Michael Spilotro/IMF

Selowsky: "One of the most interesting findings was the degree of resistance that agencies face when they try to apply the new capacities gained through technical assistance."

IMF Survey: Why were only these six countries chosen?

Selowsky: They represent a range of countries facing a variety of institutional challenges. They have also received significant amounts of TA in relation to the size of their economies. Ukraine, for example, has received significant assistance in the context of the typical institutional challenges facing a transition country. Other countries, such as Zambia and Niger, face challenges fairly typical of sub-Saharan Africa. Yemen is a case where the volume of TA accelerated very sharply during the period studied, raising important issues of absorptive capacity.

IMF Survey: Were you surprised by any of the review's findings?

Selowsky: One of the most interesting findings was the degree of resistance that agencies face when they try to apply the new capacities gained through technical assistance. In the areas of tax collection and banking supervision, for example, the IMF does a pretty good job of providing state-of-the art training, modernizing processes and systems, and exposing officials to experiences of other countries. But when these agencies begin to apply the knowledge they have gained and try to audit individuals who are evading taxes or customs duties, they often encounter significant political interference. The same is true in the case of TA provided to agencies supervising the banking system, where resistance emerges as the agencies try to audit weak banks or enforce improvements in their asset positions.

I was surprised at how systemic the problem is across countries. The Fund needs to track much more carefully whether the agencies are applying the new knowledge and draw implications for a candid dialogue with the authorities.

IMF Survey: Your evaluation finds a rather weak link between TA priorities and poverty reduction strategy papers [PRSPs] or key policy issues identified in the IMF's annual [Article IV] consultations with countries. How can these shortcomings be addressed?

Selowsky: One key step would be for the IMF's area [regional] departments to exert stronger leadership in the process of prioritizing TA. These departments are at the center of both the Article IV consultation and PRSP processes and are well equipped to identify TA priorities based on countries' short- and medium-term needs. They are also in a position to give a neutral opinion on the most urgent needs for TA across topics covered by the IMF's functional departments (those specializing in such areas as monetary and fiscal policy, and statistical and legal issues). In the low-income countries, the best way to formulate these priorities is as part of the PRSP or consultation process, particularly to the extent that they address medium-term policy issues.

IMF Survey: If PRSPs and Article IVs have not been the main drivers of TA in practice, how then have TA priorities been set?

Selowsky: We found that significant TA is driven by institutional initiatives, like FSAP [Financial Sector Assessment Program] and ROSCs [Reports on the Observance of

Standards and Codes] and the AML/CFT [Anti–Money Laundering/Combating the Financing of Terrorism] initiative. There's nothing wrong with that, but we want to make sure that these initiatives do not overwhelm countries' other needs. Those needs are actually best articulated by the countries themselves in the PRSP process and in the annual Article IV consultation, where the area departments have a key role to play. Also, if we want the process of TA allocations to be more demand-driven and the system for reallocating resources among departments to be less static—and more in line with evolving country needs—this, again, argues for the area departments to play a larger role.

IMF Survey: Aren't the IEO's recommendations likely to create higher demands on the IMF's budget at a time when more resources are going to be hard to come by?

Selowsky: The IMF's Executive Board raised this point in its discussion of our review. Implementing many of our recommendations may require fewer but more focused TA activities. As such, there may be a trade-off between quantity and quality. However, many of our recommendations involve changes in habits and practices and not increases in workload or resources. For example, much of the tracking and monitoring we recommend could be incorporated while the TA activity is in progress.

IMF Survey: Some have urged the IMF to charge for TA, suggesting it could improve country commitment and allay the resource constraint. Why is the IEO skeptical about charging for TA?

Selowsky: The purpose of our evaluation was not to increase the revenues of the IMF but to improve the effectiveness of TA. We delved into the issue of charging only from the point of view of country ownership. We found that most of the IMF's TA goes to countries with less than $1,000 in annual per capita income. Charges could simply encourage these countries to switch to other donors that provide free TA. Countries that have donor friends are going to make that switch successfully, while those without donor friends are going to have a little more trouble, so this may not be an equitable solution.

Second, poor prioritization of TA activities arises from lack of consensus within governments. If there is political favoritism, the process is distorted to start with and charging will not eliminate that distortion. A better way to avoid this distortion is for countries to dedicate more effort and resources to the design of TA. That would be a much more effective signal of ownership. We make several recommendations in this direction. ■

The full text of *IEO Evaluation of the Technical Assistance Provided by the Fund* is available on the IMF's website at *www.imf.org/external/np/ieo/2005/ta/eng/013105.htm.*

Findings

- TA seems well targeted toward low-income countries.
- New IMF initiatives, such as Reports on the Observance of Standards and Codes, have become more important drivers of TA.
- TA activities lack a medium-term country-based policy framework that would set TA priorities.
- Prioritization filters have been a poor vehicle for TA prioritization within and among countries.
- Counterparts in member countries have generally been satisfied with the resident experts provided by the IMF.
- The authorities are generally only passively involved in preparing terms of reference.
- There are many instances of weak coordination between the IMF and donors, although communication with the World Bank is better.
- TA has generally enhanced technical capabilities of agencies, but there has been significant variability among agencies in whether they have been able to make full use of increased capabilities.
- IMF documentation and reporting does not clearly unbundle and track the different stages of TA progress, which limits the IMF's ability to use past track records in making decisions about future TA.
- Frequently, political interference or lack of support prevents agencies from effectively using new knowledge.
- Charging for TA may not help strengthen country ownership or identify high-priority TA needs.

Recommendations

- Develop a medium-term country policy framework for setting TA priorities.
- Develop more systematic approaches to track progress on major TA activities and identify reasons behind major shortfalls.
- Involve authorities and counterparts more in the design of TA activities and follow-up arrangements.
- Make stronger efforts, through TA experts, to identify options and discuss alternatives with local officials prior to drafting TA recommendations.
- Widen ex-post evaluations of TA and put in place more systematic procedures for disseminating lessons.
- Replace prioritization filters with ones that would more effectively guide TA allocation.

Top scholars debate how to ignite and sustain growth

What drives growth and development? Five leading scholars looked at this elusive topic during a February 16 symposium that concluded the IMF Research Department's conference on "Macroeconomic Challenges in Low-Income Countries." The panelists were Abhit Bannerjee (Massachusetts Institute of Technology), Tim Besley (London School of Economics), Simon Johnson (IMF staff on leave from MIT), Dani Rodrik (Harvard University), and John Williamson (Institute for International Economics), and Arvind Subramanian (IMF staff) moderated the exchange. Participants generally agreed on the importance of quality institutions for long-term growth but disagreed on the role institutions play in igniting growth and whether microexperiments can be scaled up to explain big differences between countries.

Simulating an in-flight conversation between an "impatient macroeconomist" and a "self-righteous microeconomist," Abhit Bannerjee took an entertaining approach to defending his main theme that microexperiments enhance macro learning. In his view, there is much that macroeconomists can learn from microexperimental studies. Microexperimental estimates can provide answers to questions too narrow and specific to be studied in aggregate data; specific need not mean devoid of abstraction; and micro evidence may motivate macroeconomists to research certain issues and be alert to the potential for bias.

Eugene Salazar/IMF

Abhit Bannerjee

By the time Bannerjee's fictitious plane had begun its descent for landing, the impatient macroeconomist had become convinced that macro regressions and microexperiments should be seen as complementary and mutually enhancing.

But the fact that global income and inequality are accounted for largely by differences across, rather than within, countries, Dani Rodrik argued, "has some important methodological implications." He discussed his doubts about whether microexperiments can be scaled up to actually help in understanding big differences between countries at opposite ends of the development spectrum—for example, explaining why Kenya is not more like Sweden. Rodrik also questioned whether these randomized experiments could really be extended in a linear fashion. Bannerjee responded that extensive uncertainty in understanding differences in growth among countries provides the context for continuing to do microexperiments, because these "are the only levers we have."

Eugene Salazar/IMF

Dani Rodrik

Institutions and development

Improving the quality of government is now considered one of the central problems of development. But is this recent emphasis on institutions yet another fad? Tim Besley said he was somewhat disturbed by recent efforts to study institutional rules, supporting structures, and institutional change using cross-country comparisons. He pointed to India as an example of a single country with enormous variation in institutional design, across both space and time. While it is clear that institutions change significantly over time, it is also important to recognize that in the transition from autocracy to democracy, there is often a surprising amount of continuity. A study of democracies, he said, will yield enormous heterogeneity. The good news, however, is that the right questions are being asked, and there is now a wealth of data and experience that, until recently, had been ignored and that could help lead to a more nuanced understanding of development.

Eugene Salazar/IMF

Tim Besley

By contrast, Simon Johnson chose to deemphasize the variation within countries of legal, social, and economic structures supporting formal institutions, arguing that these "details of institutions do not matter so much." Institutions matter, for both the long and short term, he argued, because they are major determinants of economic performance and key to vast cross-country differences in prosperity. History, he said, reveals that weak institutions eventually lead to instability and, over very long periods, lower income levels.

Johnson particularly underscored the importance of strengthening property rights, while simultaneously developing some form of democracy to uphold these property rights. Johnson agreed with Besley that institutions can, and do, change frequently. Referring to the "dramatic wave of democratization" over the past 20 years, Johnson argued that, generally, political institutions have become more democratic while economic institutions have improved, but by less. He saw little hope, however, for "outsiders" having a positive effect on institutions, noting that although their impact historically has been significant, it has often been imposed as part of colonization.

Change takes time

Rodrik disagreed with Johnson, arguing "you don't need good governance to get growth going." He disputed Johnson's view on institutional change, arguing that this takes time and in its absence over the short term, countries can still grow. Differences in "institutional quality" across countries are the primary determinant of growth, Rodrik said, but only in the long term. And since "nobody really knows how to get institutions 'right,'" he added, this finding is "surprisingly unhelpful" for policy. The good news is that empirical evidence shows growth accelerations do not seem to require large-scale institutional change.

Rodrik proposed a three-step agenda for designing growth strategies: undertake diagnostics to determine the most binding constraints on growth; design and target policies to best alleviate constraints; and institutionalize the diagnostic process, since the nature of the constraints changes over time. None of this is heterodox, he concluded, since this approach is based on empirical evidence and standard economic theory.

Williamson agreed with fellow panelists that evidence since the 1990s shows that "institutions matter." Widely known for coining the term "Washington Consensus" to describe a list of policies that he saw as being advocated for Latin America by Washington-based institutions in the late 1980s, Williamson said that he never meant the term to serve as a "cookbook or laundry list" for policy reform. The policy agenda should not be taken as static, he emphasized, suggesting that it might now be updated to include institutional reform alongside countercyclical macro policies and measures to improve income distribution and address labor market rigidities.

Rodrik, Johnson, and Besley debated at some length the relative importance for growth of institutional reform and Rodrik's proposed diagnostic agenda. Asked by Johnson to explain how his proposed framework prescribes how to sustain growth, as well as what is needed to ignite growth, Rodrik responded that the current obsession with institutional reform and governance is a distraction from what has been shown to work and what can actually be done. If institutional reforms were as critical for igniting growth as Johnson suggested, Rodrik argued, reforms would be accompanied by significant changes in the relative power and wealth of insiders (those protected by previous institutional arrangements). Yet the growth booms of the past 40–50 years show instead that insiders have always benefited. Besley remarked that the issue is complicated since entrenched elites can be growth-promoting—citing the example of Britain in the 19th century—as well as growth-retarding.

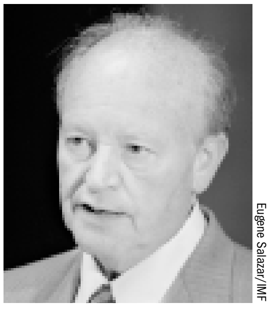
Beware of "magic bullets"


Eugene Salazar/IMF

Simon Johnson

Prompted by the audience, panelists also shared their perspectives on IMF and World Bank approaches to growth and development. While Williamson voiced "no great dissatisfaction" with the current approach of the organizations, he did express concern in the area of exchange rate policies, where he thought it important "to avoid excessive overvaluation," particularly for countries with floating exchange rate regimes. Rodrik expressed concern with the "current obsession" with inflation targeting, central bank independence, and floating exchange rates.

Shifting the focus to the World Bank, Johnson said he was shocked that so much donor aid is distributed with no attempt to randomize the allocations. Johnson commended the Bank's "tremendous progress" in measuring institutions and thinking about what can be operationalized, but he saw this work as disparate pieces rather than as an attempt to devise one metric, diagnostic tool that makes sense. For his part, Bannerjee lamented the World Bank's move away from specific projects and specific successes toward program financing and broad budgetary support. He further stressed the importance in the development field of continuing to experiment to find what works and what doesn't work, while acknowledging it is a difficult agenda. In a similar vein, he later cautioned against searching for "magic bullets" to solve the world's economic growth and development problems. Microcredit, he said, is an example of a "great idea" that should have first been evaluated properly and then, pending the outcome, possibly scaled up. ■


Eugene Salazar/IMF

John Williamson

Jacqueline Irving
IMF External Relations Department

Webcasts of the symposium presentations and papers presented during the preceding sessions of the conference on "Macroeconomic Challenges in Low-Income Countries" are posted on *www.imf.org/external/np/res/seminars/2005/macro/index.htm*.

Central banks seek better—not just more—transparency

The importance of monetary policy transparency is now largely taken for granted—a far cry from Alan Greenspan reportedly telling a U.S. congressional committee that "I've learned to mumble with great coherence. If I seem unduly clear to you, you must have misunderstood what I said." Central banks the world over now wrestle with how to achieve better, rather than just more, transparency. To further this effort, central bank officials joined academics and IMF staff for a February 7 seminar on how to implement the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies (MFP Code).

There is broad consensus today on the importance of monetary policy transparency, and not only in countries with strong traditions of democratic accountability and central bank autonomy. As IMF Deputy Managing Director Agustín Carstens noted in his opening remarks, even countries that have not yet carried out monetary and financial policy assessments are showing increasing interest in good transparency practices. One underlying factor is undoubtedly the link between transparency, credibility, and policy effectiveness—a central theme at the seminar.

Embracing openness in disclosure and developing an extensive publications program helped raise the quality of the Bank of England's work by subjecting it to public scrutiny early on.
—Andrew Hauser

In September 1999, the IMF's guiding ministerial body, the Interim Committee (now the International Monetary and Financial Committee), adopted the MFP Code. Since then, IMF staff have assessed transparency practices in more than sixty countries and the IMF's Executive Board has twice reviewed this approach, which is now the subject of a forthcoming Board Paper.

What do countries hope to achieve in adopting the code? Mark Stone (IMF Monetary and Financial Systems Department) drew out the main themes emerging from country submissions, noting how the MFP Code is implemented in a range of institutional and legal settings, and that the emphasis placed on transparency varies according to country-specific circumstances. Reviewing country experiences, Stone suggested that the push for greater transparency is typically triggered by one of several developments: adoption of an inflation-targeting regime; a shift from a command to a market economy; a quickening pace of financial market development; participation in the financial sector assessment program (FSAP); or implementation of reforms in financial supervisory structures.

Benefits of transparency

While there was consensus among practitioners and academics on the importance of transparency, there was a variety of views on the benefits to be derived from implementing the MFP Code. Pablo García (Central Bank of Chile) pointed out that by fostering policymakers' accountability, transparency can compensate for a legitimacy gap that may arise when an unelected governing body of an institution is entrusted with crucial aspects of public welfare. Among the benefits of transparency singled out by Ridha Ben Achour (Central Bank of Tunisia) was easier access to capital markets and better terms for government financing. The case studies argued that requiring a clear disclosure of the institutional allocation of responsibilities between central banks and finance ministries can enhance the coordination between monetary and fiscal policies. Absent this coordination, countries may see quasi-fiscal activities, the monetization of government deficits, overlaps between debt and liquidity management objectives, and other sources of tension undermine their monetary stability.

Monetary policy transparency has also had an impact on price stability through the channel of predictability, particularly in the face of large unanticipated shocks. Helio Mori (Central Bank of Brazil) cited an episode in his own country in which transparency helped to ease concerns when Brazil experienced external shocks, deviated from its inflation target on account of asset price developments, and ultimately saw an exchange rate depreciation. According to Andrew Hauser, Alternate IMF Executive Director for the United Kingdom, embracing openness in disclosure and developing an extensive publications program helped raise the quality of the Bank of England's work by subjecting it to public scrutiny early on.

Of course, there are also costs associated with transparency for both producers (in terms of issuing publications, maintaining a website, and drafting minutes to clearly articulate the arguments) and users (time required to read and understand statements and publications, as well as lengthy consultative processes on changes in financial regulation). As noted by Hauser, the most problematic operational issue is how to communicate an expected outcome when that outcome is not known to any degree of certainty.

From accountability to policy effectiveness

The emphasis has now shifted from accountability to policy effectiveness, Carl Walsh (University of California, Santa Cruz) observed. In effect, the degree of institutional autonomy shapes transparency policies, determining whether the government discloses its instructions to the central bank or whether the latter is required to report on its activities. Public requests for greater accountability have led autonomous central banks to disclose policy information and eventually develop more proactive communication strategies.

While early debates on transparency placed the emphasis on accountability and the inflationary bias stemming from discretion, the focus has now shifted, Walsh explained, to policy effectiveness. Optimizing a simple Taylor rule (setting interest rates in response to two variables—inflation and deviations from potential output) brought policy outcomes closer to the efficiency frontier (the ideal trade-off between minimum achievable inflation and output variability). Qualitative changes, such as clear information on the future path of interest rate policy, now represent a shift in the efficiency frontier itself. In sum, Walsh said, policy announcements act as a commitment device, improving the policy trade-offs by anchoring inflation expectations.

As public confidence in the achievement of the inflation target grows, markets are correspondingly unlikely to overreact to disturbances.

—Pierre St. Amant

Transparency and policy flexibility

The fine line between precommitment through disclosure and actions speaking louder than "constructively ambiguous" words is at the heart of the credibility paradox. For a credible central bank, greater flexibility and transparency may actually go hand in hand, so long as the public understands the communication. Governor Donald Kohn of the U.S. Federal Reserve System gave the example of a time when the Federal Open Market Committee began to disclose its "policy tilt." After an episode in which the market overreacted to interest rate information, which undermined the Committee's flexibility to adjust to unforeseen circumstances, the Fed moved to review disclosure practices. It subsequently limited statements to discussions of the balance of risks on inflation and output to avoid having the market build up false expectations of possible policy actions.

Kohn suggested that any possible tension between transparency and policy flexibility is less acute when the markets clearly understand the underlying conditionality of policy outcomes and the presence of considerable uncertainty. This was echoed by discussants at the seminar, especially by García, who pointed out that it was not so much tension between too much transparency and too little flexibility but rather between too much transparency and public underestimation of uncertainty.

Countercyclical policy and financial stability

García also noted that the transparency of inflation targeting, with its positive spillover effects on credibility, shifts the efficiency frontier out and provides room for monetary policy to act countercyclically or deal with financial stability issues. Educational efforts, he added, also help raise public awareness and increase understanding of the role of the policy anchor. A no-change or neutral stance is the litmus test for central bank communication strategies, particularly in emerging markets, where it is the direction of a change in interest rates rather than the actual rate that matters most for the transmission mechanism. Pierre St. Amant (Bank of Canada) also argued that as public confidence in the achievement of the inflation target grows, markets are correspondingly unlikely to overreact to disturbances. As evidence of this phenomenon, he cited the decline in output volatility in Canada after the adoption of inflation targeting.

The impact on financial stability was examined by the panel chaired by Tomás Baliño (IMF Monetary and Financial Systems Department), who distinguished between ex post and ex ante transparency. Edward Offenbacher (Bank of Israel) suggested that ex post transparency is more straightforward for monetary policy since central banks routinely publish information on inflation outcomes for the purpose of sustaining accountability. Ex ante disclosure—of forecasts, for instance—is more problematic, as it may oversell analysts at the cost of introducing public confusion over targets and projections. Similarly, disclosure of foreign exchange intervention and emergency liquidity assistance tends to be ex post and is carefully designed to limit exchange rate volatility and moral hazard.

In summing up the proceedings, Hervé Ferhani (IMF Monetary and Financial Systems Department) noted that central banks now give greater attention to operational issues and the modalities of communicating with financial markets. In so doing, they are striving to implement better—rather than just more—transparency, and in doing this, he said, they are following the spirit of the MFP Code. ■

Marie-Thérèse Camilleri Gilson
IMF Monetary and Financial Systems Department

For more information on transparency in monetary and financial policies, please see the full text of the MFP Code on the IMF website at *www.imf.org/external/np/mae/mft/code/*.

Democratic Republic of the Congo: Lessons from the ashes of conflict

The Democratic Republic of the Congo (DRC), the third largest country in Africa, is making significant strides to extricate itself from one of the bloodiest wars in the continent's history, which resulted in millions of deaths. Focusing on the DRC's turnaround as well as its considerable stabilization and reconstruction challenges, Postconflict Economics in Sub-Saharan Africa *draws lessons for postconflict countries worldwide. The IMF team leader and book's editor, Jean A.P. Clément, and three contributing authors, Bernardin Akitoby, Ragnar Gudmundsson, and Charles Amo Yartey, spoke with Jacqueline Irving of the* IMF Survey *about what can be learned from the DRC's experience.*

IMF Survey: Why did you choose to focus on the Democratic Republic of the Congo, and what were the main lessons learned?

Clément: The DRC's remarkable turnaround on both the political and economic fronts holds important lessons. It particularly underscores the importance of the international community's proactive engagement, even before the signing of a peace agreement. The IMF's early involvement was key in catalyzing international support and providing timely policy advice to pro-reformers in the government, which gave added momentum to the recovery process.

Another lesson is that ownership of the reform program at the highest levels of government is essential, as is coordination between international partners and the participation of civil society representatives at a very early stage. In the DRC's case, the president himself, Joseph Kabila, took ownership of the program.

In postconflict cases, the IMF staff and the donor community need to show flexibility. Thinking "outside the box" and not losing track of the broad picture—including the regional dimensions of a conflict—are crucial in sustaining the momentum of reforms and consolidating the peace process.

Also, a peace agreement that lacks an economic pillar can quickly fall apart, and the population will be unlikely to reap peace dividends, thereby increasing the chance of a return to war.

Michael Spilotro/IMF

A peace agreement that lacks an economic pillar can quickly fall apart, and the population will be unlikely to reap peace dividends.

Jean Clément

Michael Spilotro/IMF

The basic causes of conflict in sub-Saharan Africa are slow growth, weak institutions, corruption, and poverty.

Amo Yartey

We believe these lessons are valuable for other postconflict countries. We also thought it important to document what had been accomplished not only for the international community but for the people of the DRC. In fact, the Congolese people themselves asked us to document these experiences to ensure that the lessons would not be lost.

IMF Survey: What does your study show to be the main causes of conflict and the characteristics of the conflict cycle?

Yartey: We examined the causes of conflict using the Collier-Hoeffler model but focusing it only on sub-Saharan Africa and introducing measures of institutional quality and corruption. Our results show that the basic causes of conflict in sub-Saharan Africa are slow growth, weak institutions, corruption, and poverty. Dependence on primary commodities is another major causal factor, but good economic policies and transparent management of the related revenues can mitigate this. We found that the Great Lakes region has a much higher probability of civil war (27 percent) than sub-Saharan Africa as a whole (9 percent).

Clément: The book also analyzed the conflict cycle over the past three decades for 20 countries. It shows that conflicts were more prolonged in the decade prior to the fall of the Berlin Wall. Since 1990, conflicts have tended to be deeper but shorter. Unlike in the case of earlier conflicts, countries have emerged from conflict since 1990 with more sharply contracted output and very high inflation. This calls for a period of macroeconomic stabilization in the immediate aftermath of the conflict. There also has been a marked change in the amount and profile of aid to conflict countries. Pre-1990 aid to conflict countries tended to continue during the conflict because of geopolitical considerations. Since 1990, assistance generally has declined once a conflict has started and resumed after its termination. The average length of a conflict cycle is about 15 years (preconflict, conflict, and postconflict).

We found that too often international aid to postconflict countries seems to taper off shortly after a peace agreement is reached, whereas, in fact, appropriate and prolonged aid is needed to consolidate peace and avoid a reemergence of conflict.

GUDMUNDSSON: Aid flows need to be well sequenced and provided over a sustained period of time. A recent World Bank report shows that foreign aid tends to be most effective in stimulating economic growth five years after the end of a conflict. So it is important that donors focus on more than just very short-term humanitarian aid. During the conflict and in its immediate aftermath, aid resources are best devoted to humanitarian aid. In the following postconflict phase, however, reconstruction aid should focus on stimulating the development of the tradable goods sector, with an emphasis on rebuilding key public services and infrastructure that facilitate the resumption of growth.

Also technical assistance is crucial, as countries emerging from conflict tend to have significantly weakened administrative capacity. Technical assistance is needed to increase tax revenue, enhance public expenditure management, establish an independent monetary policy, rebuild an efficient payment system, ensure effective banking supervision, and facilitate the implementation of structural reforms including the adoption of sound and transparent public procurement practices. The last is crucial to assure external partners of the efficient and transparent use of aid flows.


Michael Spilotro/IMF

Foreign aid tends to be most effective in stimulating economic growth five years after the end of a conflict.

Ragnar Gudmundsson

IMF SURVEY: The book stresses the importance of designing and implementing a multidimensional package of policies. How do you square this with the need to prioritize?

CLÉMENT: The DRC case demonstrates that it is crucial from the outset to have a good diagnosis of the economic and institutional situation—one that is owned by the national authorities and civil society. This was the purpose of the IMF's multisectoral mission headed by our African Department in February 2001 in collaboration with the World Bank ahead of the signing of a peace agreement. Policies formulated without a clear diagnosis run the risk of failing.

Early on, the IMF provided assistance on fiscal, monetary, financial, and exchange rate policies and statistical data compilation. The early focus on technical assistance and capacity building—with the involvement of all IMF departments concerned and the World Bank—allowed for a broad-based diagnosis of the economic situation, as well as the design of a clear road map for a well-targeted and well-coordinated technical assistance strategy. At the request of President Kabila, priorities were defined, identifying what needed to be done immediately as well as in the medium and long terms.

Openness was crucial to the success of the new strategy. Together with the national authorities and with participation by representatives of the private sector, trade unions, and the press, we identified priority measures and their sequencing. The press was helpful, too, in asking pointed questions that helped identify some critical problems and in providing feedback. An intra-Congolese dialogue involving about 350 representatives of rebel movements, the unarmed political opposition, and civil society endorsed the new economic and social strategy. This support illustrated the ownership of the new strategy by a broad spectrum of Congolese civil society. Without this sort of national ownership from the outset and given the vested interests in a postconflict situation, problems would likely have reemerged very quickly.


Michael Spilotro/IMF

Policymakers identified key bottlenecks to growth and drew up some projects that could be started right away.

Bernardin Akitoby

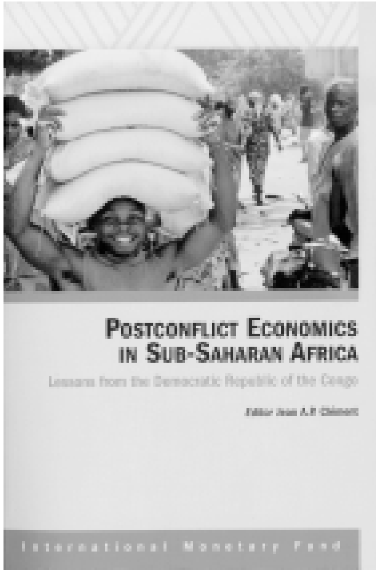
YARTEY: For postconflict countries, the priority should be to prevent a new war because these countries tend to have a much higher risk of further conflicts. Priority should be given to supporting existing peace agreements and preventing tensions from reemerging. Furthermore, because weak institutions and corruption are among the key risk factors that make countries prone to conflict and civil war, one priority in the DRC's case was developing quality institutions. If the key to conflict prevention is the ability of the entire population to have its views represented in a nonviolent way, this calls for the reform and development of some form of appropriate political and governance institutions.

IMF SURVEY: How did you determine priorities?

CLÉMENT: Three main phases—stabilization, reconstruction, and development—were defined and later included in the country's poverty reduction strategy. The stabilization phase sought to remove the most severe distortions and break the vicious cycle of hyperinflation and declining value of the currency. Priority had to be given to paying the wages of civil servants and the military on time to defuse social tension and rebuild confidence in the public administration. In parallel, with the help of the World Bank, the administrative capacity of key ministries, including the finance ministry and the central bank, had to be buttressed. Replacing lost administrative capacity is a lengthy process because many civil servants were killed during the war. It takes time to train replacements, which underscores the importance of prolonging foreign aid. At the same time, the foundations of a level playing field for the private sector were put in place.

Akitoby: Policymakers also identified key bottlenecks to growth and drew up some projects that could be started right away and would have a highly visible impact. For example, with World Bank assistance, the DRC began rebuilding arterial roads to Kinshasa, the capital, to make staple goods more readily available to the population. Sequencing is also crucial. Priority should be given to restructuring sectors that will have the quickest impact. In the DRC, these were mining, forestry, and transportation.

Another major aspect of stabilization for the DRC was liberalizing exchange rate policies and unifying the foreign exchange market. As expected, breaking the cycle of hyperinflation stabilized the exchange rate. Since the introduction of a floating exchange rate system, the parallel market exchange rate premium has fallen from 500 percent to less than 2 percent.



IMF Survey: The most recent review of the three-year economic program supported by the IMF's Poverty Reduction and Growth Facility concluded it was generally on track but that target levels of "pro-poor" budget spending had not been met. What needs to be done?

Clément: A comparison of public expenditure at end-2004 with early 2001 shows that poverty-related spending on social services increased sharply. The DRC also designed a poverty reduction and strategy paper including this main objective. At the same time, we have learned that the particular characteristics of a postconflict country require flexibility in policy design. There are bound to be certain developments, including a resurgence of violence in certain parts of the country, that cannot be foreseen. What is important is that the overall trend of reform is in the right direction and that the overall macroeconomic framework remains stable.

IMF Survey: What do you see as the principal challenges over the coming year?

Clément: One priority is maintaining and consolidating national ownership of the DRC's economic program. The DRC's transitional government includes representatives of many parties and the former rebel movement, so it is very important that this cohesiveness be maintained. Many political, social, and economic measures must be taken ahead of the elections, and this requires cooperation within the government. So continued involvement at the top is very important. National ownership also means continued discussions with civil society and a free press.

A second challenge will be to make further strides in developing a culture of good governance and transparency. You can create any institution you like, but if you don't change the culture, it will not work. To do this effectively, sanctions need to be applied when there is corruption or misconduct.

The international community must also remain involved to ensure that peace is consolidated in this still very volatile region. Proper security in the country as a whole is key, so financial support for creating professional and accountable army and police forces will be crucial.

Consolidating macroeconomic stability and continued deepening of structural and sectoral reforms will also remain essential and will require continued support and coordination from the IMF, World Bank, and other international partners, as well as flexibility and innovative solutions. It will also require an effective decentralization policy. The DRC's multiethnic society and 11 different provinces mean that administrative capacity must be buttressed at the provincial level. The dividends of peace have to trickle down from the capital. And, last but not least, the upcoming election process must be seen by the Congolese people as transparent and fair. ■

Copies of *Postconflict Economics in Sub-Saharan Africa*, edited by Jean Clément, are available for $28.00 each from IMF Publication Services. See page 64 for ordering details.

HIPC debt relief (status as of February 17, 2005)

IMF member	Decision point	Completion point	Amount committed	Amount disbursed[1]
			(million SDRs)	
Heavily Indebted Poor Countries (HIPC) Initiative				
Under original 1996 initiative				
Bolivia	September 1997	September 1998	21.2	21.2
Burkina Faso	September 1997	July 2000	16.3	16.3
Côte d'Ivoire	March 1998	–	16.7[2]	–
Guyana	December 1997	May 1999	25.6	25.6
Mali	September 1998	September 2000	10.8	10.8
Mozambique	April 1998	June 1999	93.2	93.2
Uganda	April 1997	April 1998	51.5	51.5
Total original HIPC			**235.3**	**218.6**
Under the 1999 Enhanced HIPC Initiative				
Benin	July 2000	March 2003	18.4	20.1
Bolivia	February 2000	June 2001	41.1	44.2
Burkina Faso	July 2000	April 2002	27.7	29.7
Cameroon	October 2000	Floating	28.5	5.5
Chad	May 2001	Floating	14.3	7.2
Congo, Democratic Republic of	July 2003	Floating	228.3[3]	2.3
Ethiopia	November 2001	April 2004	26.9[4]	28.1
Gambia, The	December 2000	Floating	1.8	0.1
Ghana	February 2002	July 2004	90.1	94.3
Guinea	December 2000	Floating	24.2	5.2
Guinea-Bissau	December 2000	Floating	9.2	0.5
Guyana	November 2000	December 2003	31.1	34.0
Honduras	June 2000	Floating	22.7	8.8
Madagascar	December 2000	October 2004	14.7	16.4
Malawi	December 2000	Floating	23.1	6.9
Mali	September 2000	March 2003	34.7	38.5
Mauritania	February 2000	June 2002	34.8	38.4
Mozambique	April 2000	September 2001	13.7	14.8
Nicaragua	December 2000	January 2004	63.5	71.2
Niger	December 2000	April 2004	21.6[5]	24.1
Rwanda	December 2000	Floating	33.8	14.4
São Tomé and Príncipe	December 2000	Floating	–	–
Senegal	June 2000	April 2004	33.8	38.4
Sierra Leone	March 2002	Floating	98.5	62.0
Tanzania	April 2000	November 2001	89.0	96.4
Uganda	February 2000	May 2000	68.1	70.2
Zambia	December 2000	Floating	468.8	351.6
Total Enhanced HIPC			**1,562.4**	**1,123.4**
Combined total for 28 members			**1,797.7**	**1,342.0**

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 pre-agreed key structural reforms (that is, floating completion point).

[1] Includes interest on amounts committed under the Enhanced HIPC Initiative.

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

[3] Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a loan under the Poverty Reduction and Growth Facility following the Democratic Republic of the Congo's clearance of arrears to the IMF on June 12, 2002.

[4] Excludes commitment of additional enhanced HIPC assistance of SDR 18.19 million subject to receipt of satisfactory financing assurances from other creditors.

[5] Excludes commitment of additional enhanced HIPC assistance of SDR 9.664 million subject to receipt of satisfactory financing assurances from other creditors.

Data: IMF Finance Department.

More central banks try open market operations

Following a trend initiated in the 1970s in industrial countries, most central banks in emerging market economies and developing countries have attempted to implement monetary policy through money market operations. How have they fared? The experience has been mixed, according to a recently published IMF staff paper, *Monetary Policy Implementation at Different Stages of Market Development*. Whereas some countries have successfully moved toward using market-based instruments for monetary policy operations, others have not managed to build the strong market infrastructure needed to fully rely on these tools for liquidity management. Still other countries have found that the lack of competition has complicated the use of money market operation.

Since 1999, the IMF has provided technical assistance to more than 100 countries to help them make the transition to market-based frameworks. The world's central bankers generally agree that using open market operations in conducting monetary policy complements broader reforms aimed at reducing direct government intervention in the economy, improving the capacity of financial institutions to mobilize domestic savings, and strengthening the role of market forces in the allocation of financial resources.

Drawing on the experience gained from technical assistance, and on a detailed review of a dozen countries and regions, the paper identified common factors behind the difficulties in moving to market-based monetary policy operations. The failure to establish a clear separation between money creation and government funding needs, as well as limited market participation and the lack of an effective framework to decide on the timing and size of central bank operations, often limited the effectiveness of money market operations.

A supplement to the paper also looked in some detail at the experiences of the Eastern Caribbean Currency Union, the Democratic Republic of the Congo, Egypt, Kyrgyz Republic, Malta, The Gambia, Tonga, Tunisia, Uganda, Ukraine, Vanuatu, and Zambia.

Using markets to conduct monetary policy

More central banks in developing and emerging market countries are moving away from using credit and interest rate controls.

	Developing countries	Emerging countries	Developed countries
	(percent of sampled countries)		
Credit and interest rate controls	4	22	0
Liquid asset ratio	65	30	9
Reserve requirements	100	96	70
Open-ended/standing facilities	96	96	100
Discretionary and market-based	96	96	100

Data: IMF; based on a survey of 23 developing, 23 emerging, and 23 developed countries as of the end of 2001.

The paper concluded that although the development of money market operations needs to be tailored to each country's particular circumstances, in general, reforms take hold most effectively in the context of a stable macroeconomic environment and sound fiscal policies, a stable and competitive financial system and adequate supervisory framework, and a significant degree of institutional autonomy and operational capacity at the central bank.

In discussing the paper, the IMF Executive Board supported the staff's recommendation to develop a menu of options for implementing monetary policy that takes into account underlying obstacles to market development, including the extent of dollarization, the size of the country, government financing needs, structural excess liquidity, implementation capacity at the central bank, and the strength of the banking system. ■

For more information, please refer to Public Information Notice No. 05/15 and the staff paper *Monetary Policy Implementation at Different Stages of Market Development* prepared by an IMF team led by Bernard J. Laurens at the IMF's website (*www.imf.org*).

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