IMF Survey

INTERNATIONAL MONETARY FUND

JUNE 6, 2005 VOL. 34, NO. 10

www.imf.org/imfsurvey

## NEWS: IEO calls for clarity on capital account issues

Destabilizing international capital flows in recent years have put the spotlight on the IMF's role in capital account liberalization. This role is particularly controversial because the institution has no formal mandate to promote open capital accounts. In a new report, the IMF's Independent Evaluation Office (IEO) concludes that the organization needs greater clarity in its work in this area. The IEO's Shinji Takagi, team leader of the evaluation, elaborates on its findings.

155

## FORUM: African cotton conference seeks solutions

Millions of smallholders in West and Central Africa produce cotton for export—a principal source of cash income for many households and an essential lifeline for purchasing health and education services. Given the sector's critical importance and plunging world cotton prices over the past year, the Beninese government hosted a high-level conference that proposed solutions to the crisis.

159

## COUNTRY FOCUS: Migration's effects on New Zealand

New Zealand's solid economic performance has in part resulted from high immigration in recent years. In contrast to other traditional immigration countries, migration flows to and from New Zealand have been highly volatile, affecting domestic demand as well as employment. While domestic demand typically increases with a higher influx of migrants, immigration's impact on unemployment depends on a variety of factors, such as the immigrants' countries of origin, and their education and skill levels.

164

## FORUM: Africa's time has come, says Mandela

Speaking recently at the Brookings Institution in Washington, D.C., Nelson Mandela urged rich countries to do more to respond to Africa's development challenges, by providing much more assistance, on more flexible terms, and in line with African-determined priorities. With the next Group of Eight Summit on the horizon—and poverty reduction in Africa on its agenda—Mandela's remarks take on particular urgency.

168

## IN THIS ISSUE

154 What's on

154 At a glance

155 In the news
*IEO report on capital account liberalization*
*Colombia*
*De Rato in Niger*

159 Forum
*Cotton conference*
*Structured finance*

162 Research
*Cost of reserves*

164 Country focus
*New Zealand*

166 Policy
*Quality of public investment*

167 IMF lending
*HIPC debt relief*

168 Forum
*Mandela at Brookings*

INTERNATIONAL MONETARY FUND

# IMF Survey

JUNE 6, 2005 VOL. 34, NO. 10

www.imf.org/imfsurvey

## NEWS: IEO calls for clarity on capital account issues

Destabilizing international capital flows in recent years have put the spotlight on the IMF's role in capital account liberalization. This role is particularly controversial because the institution has no formal mandate to promote open capital accounts. In a new report, the IMF's Independent Evaluation Office (IEO) concludes that the organization needs greater clarity in its work in this area. The IEO's Shinji Takagi, team leader of the evaluation, elaborates on its findings.

Michael Spilotro/IMF

155

## FORUM: African cotton conference seeks solutions

Millions of smallholders in West and Central Africa produce cotton for export—a principal source of cash income for many households and an essential lifeline for purchasing health and education services. Given the sector's critical importance and plunging world cotton prices over the past year, the Beninese government hosted a high-level conference that proposed solutions to the crisis.

Stephen Jaffe/IMF

159

## COUNTRY FOCUS: Migration's effects on New Zealand

New Zealand's solid economic performance has in part resulted from high immigration in recent years. In contrast to other traditional immigration countries, migration flows to and from New Zealand have been highly volatile, affecting domestic demand as well as employment. While domestic demand typically increases with a higher influx of migrants, immigration's impact on unemployment depends on a variety of factors, such as the immigrants' countries of origin, and their education and skill levels.

164

## FORUM: Africa's time has come, says Mandela

Speaking recently at the Brookings Institution in Washington, D.C., Nelson Mandela urged rich countries to do more to respond to Africa's development challenges, by providing much more assistance, on more flexible terms, and in line with African-determined priorities. With the next Group of Eight Summit on the horizon—and poverty reduction in Africa on its agenda—Mandela's remarks take on particular urgency.

Henrik Gschwindt De Gyor/IMF

168

## IN THIS ISSUE


154 What's on

154 At a glance

155 In the news
- *IEO report on capital account liberalization*
- *Colombia*
- *De Rato in Niger*

159 Forum
- *Cotton conference*
- *Structured finance*

162 Research
- *Cost of reserves*

164 Country focus
- *New Zealand*

166 Policy
- *Quality of public investment*

167 IMF lending
- *HIPC debt relief*

168 Forum
- *Mandela at Brookings*


©International Monetary Fund. Not for Redistribution

# What's on

## June

**5–7** Organization of American States General Assembly, Fort Lauderdale, Florida

**7–9** IMF-UN-Ukrainian Office of the Prosecutor General, workshop on anti-money laundering and combating the financing of terrorism, Kiev, Ukraine

**5–10** IMF First Deputy Managing Director Anne Krueger to visit Madagascar and South Africa

**6** OECD African Development Bank, Fifth International Forum on African Perspectives, Paris

**8** IMF-Deutsche Bundesbank Symposium, "The IMF in a Changing World," Frankfurt, Germany

**10–11** Group of Seven Finance Ministers Meeting, London

**12–14** OECD Tidewater Annual Development Meeting, Stockholm, Sweden

**15–16** IMF-Singapore Regional Training Institute conference, "Managing Fiscal Risks in Asia," Singapore

**20** Annual U.S.-E.U. Summit, Washington, D.C.

**29–July 1** ECOSOC Substantive Session, High-Level Segment, New York

## July

**1–5** International Conference on AIDS in Asia and the Pacific, Kobe, Japan

**4–8** IMF workshop on anti-money laundering and combating the financing of terrorism, Dalian, China

**6–8** Group of Eight Summit, Gleneagles Hotel, Gleneagles, Scotland

**13–14** IMF seminar for legislators on VAT policy and administration, Lao P.D.R.

## August

**22–26** IMF-Singapore Regional Training Institute seminar, "Creditor Rights in Emerging Economies," Singapore

## September

**6–7** IMF high-level seminar, "Financial Stability—Central Banking and Supervisory Challenges," Washington, D.C.

**8** IMF Economic Forum, "IMF Conditionality: Good, Bad, or Ugly?" Washington, D.C.

**14–16** High-level plenary meeting, UN General Assembly, to review progress on UN Millennium Declaration commitments, New York

**24–25** IMF and World Bank Annual Meetings, Washington, D.C.

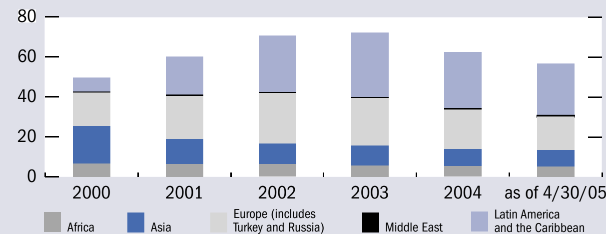
**IMF Executive Board**
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp*.

# At a glance

## IMF financial data

### Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



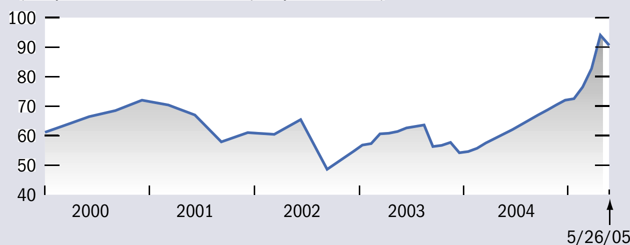

### Major currencies, rates per SDR

(end of period)

| | May 2005 | Year ago |
|---|---|---|
| Euro | 1.196 | 1.199 |
| Japanese yen | 159.412 | 162.305 |
| U.K. pound | 0.811 | 0.801 |
| U.S. dollar | 1.475 | 1.469 |

### IMF available resources

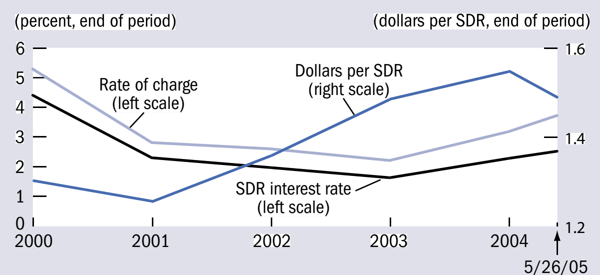
(one-year forward commitment capacity, billion SDRs)




### Related rates

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

(percent, end of period) (dollars per SDR, end of period)




**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.



©International Monetary Fund. Not for Redistribution

# Sharper advice needed from IMF on capital account issues

*Capital account liberalization has reemerged as a topic of intense debate in recent years. Some argue that rapid capital account liberalization caused much of the financial instability and economic distress that many emerging market countries experienced in the mid- and late 1990s. The IMF—which has always had a mandate to promote current account liberalization but no explicit mandate to promote capital account liberalization—has been part of the controversy, with some criticizing it for encouraging member countries to liberalize their capital accounts prematurely. On May 24, the IMF's Independent Evaluation Office (IEO) released its report on the IMF's approach to capital account liberalization. Shinji Takagi, IEO advisor and team leader for the report, spoke with Christine Ebrahim-zadeh of the* IMF Survey *about the report's findings, which are based partly on the IMF's experience in a sample of emerging market economies during 1990–2004.*

Michael Spilotro/IMF

Takagi: "The lack of a formal IMF policy on capital account liberalization has led to some inconsistency in policy advice."

***IMF Survey:*** Although *current* account liberalization is among the IMF's official purposes set out in its Articles of Agreement, the IMF has no explicit mandate to promote *capital* account liberalization. What have been the consequences of this lack of an explicit mandate—or even a formal IMF position—on capital account liberalization?

**Takagi:** Capital account liberalization is an important issue on which the IMF does not have a position. As a consequence, the IMF has not always provided consistent policy advice across countries. For example, the IMF encouraged Russia to open its government bond market to help the government finance its deficit through foreign borrowing. At the same time, it was telling India not to do so. The staff response to this finding of an apparent lack of consistency is that it reflects the adaptation of policy advice to specific individual country circumstances. We don't deny that. In fact, we give credit to the staff for tailoring their advice. Still, without a formal IMF position, some sort of inconsistency is inevitable.

***IMF Survey:*** There have been some initiatives to amend the IMF's Articles of Agreement, but these have not been accepted. What is the reason behind the opposition?

**Takagi:** The evaluation did not address this issue but in my opinion, there are several reasons for the opposition. First, some developing countries do not want to be obligated, under the Articles of Agreement, to liberalize their capital accounts. Second, some feel that the IMF's jurisdiction should remain with the making of payments and transfers for international transactions, not with the underlying transactions themselves. With capital account transactions, it is often not possible to make that distinction, and it is feared that giving the IMF jurisdiction over the capital account would end up granting it too much authority. Third, if there is a need for some official regulation of capital account transactions, some question whether the IMF is the right institution—and international civil servants are the right people—to have that responsibility. Fourth, some feel that without formal jurisdiction, the IMF has done quite well in adapting its procedures to deal with capital account liberalization and other capital account issues. Of course, our report challenges this last point. The lack of a formal IMF policy on capital account liberalization has led to some inconsistency in policy advice.

***IMF Survey:*** The IMF got a reputation at the time of the Asian crisis for having been a cheerleader for capital account liberalization, and for not taking adequate account of the risks. How justified was this reputation?

**Takagi:** Our evaluation establishes that the IMF did not push these countries to liberalize their capital accounts. That the IMF was somehow responsible for encouraging East Asian countries to open their capital accounts and thereby invited subsequent crises is unfounded, although one can rightly question if the IMF did enough to warn them of the risks involved in the strategies for opening their capital accounts.

***IMF Survey:*** What has the IMF's stance been regarding the use of capital controls as a temporary measure to deal with large capital flows?



©International Monetary Fund. Not for Redistribution

**Takagi:** The report documents that the IMF's position on the temporary use of capital controls has not always been consistent. Because of the lack of an explicit policy position on capital account liberalization, the IMF really has depended on individual staff members' views on the subject. That said, the institution's stance has become very accommodating over time. Part of the explanation for this shift comes from empirical economic research—for example, on Chile's and Malaysia's use of these controls.

***IMF Survey:*** What are the operational and procedural implications of the recommendations that come out of your review?

**Takagi:** There has to be greater clarity on the IMF's policy on what the staff can do in terms of surveillance. The IMF is responsible for surveillance over members' exchange rate policies. As part of this responsibility, it is already responsible for surveillance of their capital account policies. However, this is a derived responsibility. Without clear guidance, IMF staff are not entirely sure what they can and cannot do.

IMF staff support our first recommendation, which is to establish a formal IMF position on capital account issues. But the Executive Board could not reach consensus on that recommendation. Nevertheless, I believe the Board has realized that staff need some guidance in this area. If nothing else, the Board could at least agree to disagree—that is, it could state that there is no consensus in the Board and that the IMF has no official position on capital account liberalization. It could even say that staff may make their own decisions in their policy advice to countries.

Somewhat disappointing to me was the fact that so much of the Board discussion focused on our two broad recommendations. The IEO always has two purposes when it takes on a review. One is to increase transparency, and the other is to draw lessons for the IMF. In this case, we accomplished more on the first point because we documented and cleared up a number of misconceptions about the IMF's role in capital account liberalization. The Board's response, however, is understandable because the recommendations, and not the findings, are the ones that could potentially affect the institution.

## Highlights of IEO report

### Major findings

The IMF encouraged countries that wanted to move ahead with capital account liberalization, especially before the East Asian crisis. However, it did not push countries to move faster than they were willing to. While the IMF pointed out the risks inherent in an open capital account and the need for a sound financial system, these risks were insufficiently highlighted, until later in the 1990s.

In multilateral surveillance, the IMF emphasized the benefits to developing countries of greater access to international capital flows, while paying less attention to the risks inherent in their volatility. Its policy advice was directed more toward emerging market recipients of capital flows than to the question of how source countries might help reduce the volatility of capital flows on the supply side. In more recent years, IMF analysis of supply-side factors has intensified, but the focus remains on recipient countries.

In country work, IMF advice on capital account issues seems to have, at times, lacked consistency across countries. Policy advice must of necessity be tailored to country-specific circumstances, so uniformity cannot be the only criterion for judging the quality of IMF advice. Country documents, however, do not always provide sufficient basis for making a judgment on how the staff's policy advice was linked to its assessment of the overall macroeconomic and institutional environments in which it was given.

The lack of a formal IMF position on capital account liberalization gave individual staff members freedom to use their own professional and intellectual judgment in dealing with specific country issues. In more recent years, the IMF's approach to capital account issues has become somewhat more consistent and clear. But the new paradigm is still unofficial, and has not been formally adopted.

### Recommendations

***There is a need for more clarity in the IMF's approach to capital account issues.*** Possible steps to improve the consistency could include:

- clarification of the place of capital account issues in IMF surveillance.
- sharpening of the IMF's advice on capital account issues, based on solid analysis of the particular situation and risks facing specific countries.
- clarification by the Executive Board of the common elements of agreement on capital account liberalization.

***IMF analysis and surveillance should give greater attention to the supply-side determinants of international capital flows and what can be done to minimize their volatility.*** The IMF should also provide analysis of what can be done on the supply side to minimize the volatility of capital flows.



©International Monetary Fund. Not for Redistribution

***IMF Survey:*** The IMF has adopted a so-called "integrated" approach that makes capital account liberalization part of a comprehensive reform package, including the macroeconomic policy framework, domestic financial system, and prudential regulations. How easy is it to apply this approach, given that it seems to emphasize all potential interlinkages and does not seem to provide clear criteria for identifying a hierarchy of risks?

**Takagi:** In the past, the IMF followed an ad hoc, case-by-case approach. The integrated approach, which has emerged over the past five or six years, is a sort of informed consensus within the IMF. With this approach, the pendulum has swung to the other side. That is to say, if the IMF ever was pushing for capital account liberalization, it has now completely swung the other way. It is an approach that tries to ensure that every risk is covered. The IEO feels that not everything that this approach suggests is vital for capital account liberalization. A distinction needs to be made between what is absolutely necessary and what can wait. The IMF's advice in this area has to be more practical by providing some indication of priorities.

***IMF Survey:*** All the industrial countries have now had open capital accounts for at least a couple of decades, and these and other countries that have liberalized their capital accounts show no inclination to reverse the process. Doesn't this suggest that this is essentially a one-way street—that more and more countries will open their capital accounts as time passes and that they will be happy with the results?

**Takagi:** I would say yes, although there may be some instances where countries will liberalize and then may wish to introduce safeguards by imposing temporary controls to deal with a specific problem. But with greater economic integration it is inevitable that capital controls will lose more and more of their effectiveness. This means that a policy of control will increasingly involve an administrative cost that is not justified by what it can achieve. As democratic values are more widely shared, pressure for capital account liberalization will come from another dimension. As political freedom increases, people will demand more economic freedom. Capital controls are not compatible with the desire of people to lend and borrow anywhere they want. But with this freedom will come more risk. ■

The full text of "IEO Report on the Evaluation of the IMF's Approach to Capital Account Liberalization," along with IMF management and staff responses and the summing up of the Executive Board's discussion of the report, is available on the IEO's website at *www.imf.org/ieo.*

## IMF staff responds

Staff largely concurs with the IEO's findings on the IMF's policy advice to its member countries on capital account issues. However, it feels that the report does not do justice to the role played by external forces in promoting capital account liberalization. Also, while staff considers the sample of country cases that formed a basis for the IEO's evaluation to be a fair representation of the diverse membership, it believes that more attention could have been paid to differences among these countries. Relatedly, the finding of some apparent inconsistencies in the IMF's advice on capital account liberalization across countries needs to be more nuanced.

With regard to the two main recommendations, staff notes that the IMF already is either implementing some of them in its work program or has plans to do so. Staff endorses the first recommendation—that the IMF clarify its approach, and sharpen its advice, on capital account issues. However, staff points out that the Board and the staff have increasingly made capital account developments and vulnerabilities an important focus of the IMF's work on promoting stability, and that the process of clarifying the scope of IMF surveillance to include capital account issues is already under way. Staff agrees that it would be useful to have some clear operational guidance laying out the broad principles that it needs to follow in its policy advice across countries. There is, however, no single "right" approach.

Staff emphasizes that sharper advice from the IMF on capital account issues must be based on solid analysis of the particular situation and risks facing specific countries. However, the IEO's suggestion that the IMF provide some quantitative gauge of the benefits, costs, and risks of liberalizing at different speeds is likely to prove difficult to put into practice, given the conflicting theoretical and empirical evidence on the subject and the political and economic complexities that capital account issues typically involve.

Staff agrees with the crux of the second recommendation—that the IMF's analysis and surveillance should give greater attention to the supply-side factors of international capital flows and what can be done on the supply side to minimize the volatility of capital movements. However, given the large number of staff studies already completed (and more under way), staff is uncertain what other specific actions, if any, the IEO may have in mind. With so many initiatives under way, staff is puzzled by the report's finding that the IMF pays too little attention to supply-side risks. Staff emphasizes that additional internationally coordinated efforts could help give supply-side issues higher priority among policymakers in advanced economies.



©International Monetary Fund. Not for Redistribution

## Colombia's economic strategy bears fruit, but challenges remain

After an initially slow recovery from the 1999 economic crisis—the worst in 30 years—Colombia's economic growth saw a significant rebound in 2003–04, with declines in inflation, unemployment, and the public debt in proportion to GDP, the IMF said in its annual economic review. The balance of payments position has improved, aided by buoyant export growth, and confidence in the economy has strengthened as reflected in higher capital inflows, appreciation of the peso, and a lower country-risk premium. The IMF Executive Board welcomed the sound macroeconomic policies and structural reforms of recent years, but noted that unemployment, poverty, and public debt remain high.

The government is committed to fiscal consolidation and structural reforms to strengthen growth and further reduce inflation and the public debt-to-GDP ratio. The Board said the main challenge will be to keep up the pace of fiscal reforms, adding that the revised budget code and the pension reform currently before Congress are crucial.

The Board welcomed the objective of making the tax system more efficient while broadening the tax base and improving tax administration. It recommended stronger fiscal coordination among the different levels of government and streamlining current expenditure to make room for more productive capital spending. It supported Colombia's efforts to target social spending more effectively to the poor and urged additional pension reform and a gradual deregulation of domestic gasoline and diesel prices. The Board encouraged the authorities to further improve debt management, especially by relying more on domestic currency borrowing.

Monetary policy has been prudent, and the flexible exchange rate regime has served Colombia well. The Board said the government's financial restructuring operations have helped strengthen the financial system since 1999, adding that the authorities should continue to reduce the role of the public sector in the banking system. ■

| Colombia | 2001 | 2002 | 2003 | 2004 Preliminary | 2005 Projections |
|---|---|---|---|---|---|
| | | | (percent change) | | |
| Real GDP | 1.5 | 1.9 | 4.0 | 4.0 | 4.0 |
| End-of-period CPI | 7.6 | 7.0 | 6.5 | 5.5 | 5.0 |
| | | | (percent of GDP) | | |
| Current account balance | –1.4 | –1.7 | –1.5 | –1.0 | –2.8 |
| Public debt | 51.8 | 60.2 | 56.0 | 52.9 | 50.4 |

Data: IMF staff report, April 2005.

For more information, please refer to Public Information Notice No. 05/62 on the IMF's website (*www.imf.org*).

## De Rato visits Women's Dairy Cattle Project in Niger

During his recent trip to four African countries for discussions with political and financial leaders, IMF Managing Director Rodrigo de Rato also met with civil society organizations. In one case, in particular, the meeting was rather unusual. In a village on the outskirts of Niamey in Niger, de Rato visited the Women's Dairy Cattle Project, a nongovernmental organization of women who raise cows for milk production.

Stephen Jaffe/IMF

With children watching from the sidelines, the village leaders told de Rato about purchasing the cows with microfinancing from the government. The small-scale lending had been made possible by debt relief provided through the Heavily Indebted Poor Countries Initiative of the IMF and the World Bank.

The cows—a striking breed with beautiful semicircular horns—provide a source of income for the women's families that also allows them to repay their microfinance loans. De Rato told members of the dairy cattle project that the IMF would be donating 10 cows to the women through its Civic Grant Program. ■



©International Monetary Fund. Not for Redistribution

# African cotton producers chart a course for prosperity

In many West and Central African states, cotton accounts for up to 60 percent of export receipts. Cotton provides the main source of cash income for millions of smallholders—essential for purchasing health and education services. Against the background of 25 percent declines in cotton prices over the past year, the Beninese government and the IMF's African Department organized a high-level conference in Cotonou with African cotton producers on May 18.

Senior officials from Benin, Burkina Faso, Chad, and Mali (the "Cotton-4"), together with cotton firms and farmers, and officials from international trade and development agencies, debated ways to respond to the crisis in the sector, which threatens to undermine macroeconomic stability, economic growth, and poverty reduction programs.

Stephen Jaffe/IMF

Burkina Faso's Prime Minister Paramanga Ernest Yonli (left) and IMF Managing Director Rodrigo de Rato brief the press following the May 18 Cotonou cotton conference.

In his opening statement, IMF Managing Director Rodrigo de Rato noted that prices for cotton exports have recently fallen to their lowest level since 1994. A rise in world cotton supply had been the key factor in the decline, accentuated by the strong euro (to which the CFA franc is pegged). De Rato proposed a four-pronged response.

First, ***preserve macroeconomic stability.*** There was agreement that domestic price adjustments, while difficult, were necessary and were being put in place by both private sector and state-owned cotton firms. Paramanga Ernest Yonli (Burkina Faso's Prime Minister) indicated that prices paid to cotton growers in the coming season would be reduced and that additional declines could deter farmers from harvesting their crops. Abou-Bakar Traoré (Mali's Finance Minister) also noted producer prices for the coming season would decline to protect the 2006 budget from significant sector support. According to François Traoré (producers' association in Burkina Faso), agreements on producer pricing in Burkina Faso had been facilitated by farmer ownership of capital in cotton ginneries, which had helped improve understanding of developments in world prices.

Second, ***enhance the efficiency of cotton production.*** While the need for improved productivity was uncontested, some participants drew attention to their countries' adjustment problems. Mahmood Ayub (World Bank) outlined ways to improve competitiveness by reducing costs of production, improving management of cotton sales, and improving infrastructure and the investment environment. Yonli emphasized the importance of a regional approach based on market integration and policy convergence, with specialization raising efficiency. Florie Liser (Office of the U.S. Trade Representative) discussed areas where U.S. funding could help improve African cotton production, processing, and marketing.

Third, ***eliminate developed countries' cotton subsidies.*** Proponents of the 2003 Cotton Initiative (the "Cotton-4") underscored their continuing efforts to eliminate competitor countries' domestic support as well as trade-distorting export subsidies. Their removal, according to some studies, would have obviated the need for downward adjustments in producer prices. Chiedu Osakwe (World Trade Organization) noted that the trade-related aspects of the Cotton Initiative would be addressed within the framework of the Doha Round "ambitiously, expeditiously, and specifically." Some African participants also urged that cotton sector reforms not be put on hold in anticipation of the early elimination of trade distortions.

Fourth, ***protect the poor during adjustment.*** The most contentious issue was how development partners could help. African proposals for a regional emergency fund to support cotton prices were viewed with some skepticism by development partners, although Christian Daziano (French ambassador to Benin) said his authorities supported discussing how such a fund might work. Yves Gillet (European Commission) pointed out that direct, case-by-case budget support would be more effective than a regionally managed price support fund. Abdoulaye Bio-Tchané (Director, IMF African Department) emphasized that a support fund would reduce available resources for poverty reduction spending and risked supplanting the role of banks in financing the cotton sector. Liser stated that three of the Cotton–4 countries could potentially have much greater access to assistance for their cotton sectors while implementing the needed reforms, through the U.S. Millennium Challenge Corporation. ■

Chris Lane
IMF African Department

The text of the Conference Declaration is available on the IMF's website at *www.imf.org/external/np/sec/pr/2005/pr05121.htm.*



©International Monetary Fund. Not for Redistribution

# Structured finance: benefits and potential risks

Structured finance is one of the most innovative and rapidly growing areas of modern finance. Broadly defined, it refers to the repackaging of cash flows to transform the risk, return, and liquidity characteristics of financial portfolios. Structured financial instruments play a key role in transferring credit risk among financial institutions and between financial institutions and market participants in other sectors of the economy. But many financial supervisors and central bankers fear that some market participants may not fully understand the risks involved. They also question whether these instruments transfer risks to institutions best able to bear those risks or to those that are least regulated. To explore these issues, the IMF Institute hosted a high-level seminar on April 19–20 in Washington, D.C., where market practitioners, academics, policymakers, and regulators exchanged views with senior officials from more than 40 advanced and emerging market countries.

By making credit risk tradable, structured financial instruments—which include asset-backed securities—are fundamentally altering credit markets. In 2004, asset-backed securities worth $900 billion were issued in the United States—for the first time exceeding the total amount of more traditional corporate bond issues. Taken together, asset-backed securities and mortgage-backed securities today represent about one-third of the U.S. debt market. In Europe, securitized issues set a record in 2004 with a volume of $250 billion—three times larger than in 2000.

## Benefits abound

The benefits of structured financial instruments for issuers and investors are fourfold: they make it possible to unbundle and trade credit risk; are cost-effective funding tools for financial institutions, corporations, and governments; can be used effectively for balance sheet management; and can offer tailor-made risk-return profiles that meet investor needs. Salih Neftci (City University of New York and the International Center for Financial Asset Management and Engineering) told participants how—with the help of credit derivatives—new instruments can be created synthetically. Krishna Memani (Credit Suisse First Boston) suggested that such synthetic structured instruments have substantially improved the management and pricing of credit risk. Asset managers and their clients stand to benefit as these instruments expand both their investment opportunities and their risk management tool kit, Antulio Bomfim (Oppenheimer Funds) and Curtis Mewbourne (PIMCO) pointed out.

Henrik Gschwindt De Gyor/IMF

From left: Panel moderator Ralph Chami (IMF), Salih Neftci (City University of New York and the International Center for Financial Asset Management and Engineering), and Janet Tavakoli (Tavakoli Structured Finance).

## Not without risks

But there are also potential risks associated with the complexity of structured financial instruments. Most notably, risks stem from difficulties in risk assessments—particularly assessments of the correlation of risks among underlying assets—and thus in the pricing of structured instruments. Janet Tavakoli (Tavakoli Structured Finance) noted that a key issue was managing the conflicts of interest among players involved in structuring transactions and understanding that their complexity creates considerable legal and documentation risks. Furthermore, a single credit rating cannot adequately capture the risk characteristics of structured instruments—one reason why, according to Kimberly Slawek (Fitch Ratings), it is imperative that investors understand the limitations of ratings in making investment decisions. Moreover, because rating agencies derive substantial revenues from structured transactions and advisory services, some participants questioned whether rating agencies were adequately managing their own conflicts of interest.

Do these instruments pose risks to overall financial stability? Participants pointed out that because structured financial instruments facilitate the transfer of risk to institutions outside of the banking system, they may actually improve banking stability. But, at the same time, credit risk may migrate to institutions (including hedge funds) that may be less able to bear it. Risks could also become concentrated in a few financial institutions, though the chance of that happening was deemed relatively small at present.

Colin Miles (Bank of England) saw systemic risk arising possibly from the dynamic hedging of structured instruments. Such hedging relies on continuous access to liquid markets



©International Monetary Fund. Not for Redistribution

for frequent readjusting of positions. However, in a crisis, market liquidity could dry up and price dynamics in the bond and credit derivatives markets could be amplified. These new instruments have not been tested under market turbulence, and it is unclear how the market will behave over a full interest-rate cycle. Whatever the case may be, credit risk markets, by their nature, are highly opaque and therefore complicate the tasks of central banks, supervisory agencies, and international agencies, including the IMF, in tracking the distribution of risks and assessing financial stability.

### A tool for developing capital markets

Beyond transferring credit risk, asset-backed securities and other structured financial instruments may be useful for developing capital markets. As Guillermo Babatz (Mexican Federal Mortgage Society) pointed out, mortgage-backed securities are being introduced because in many countries banking systems cannot meet the financing needs of the housing sector. In Hong Kong SAR, a mortgage-backed securities market is being developed with the help of standardized documentation and underwriting standards, and a government-owned corporation that issues securities backed by bank-originated mortgages, noted James Lau, Jr. (Hong Kong Mortgage Corporation). Innovative instruments are also being developed. In Brazil, for example, remittance flows and loans to small and medium-sized enterprises are being securitized, Amaro Gomes (Banco Central do Brasil) explained.

Structured financial instruments, such as collateralized debt obligations (CDOs), can bridge the gap between the features sought by investors (such as diversification) and issuers' constraints (such as low credit quality). Lee Meddin (International Finance Corporation) described how institutions such as his have helped increase the supply of high-quality securities in several emerging markets through partial guarantees and investments in mezzanine tranches (subordinated debt securities of CDOs). But the preconditions for liquid markets in structured instruments can be daunting, he suggested. The investor base must be large, and institutions must be able to structure transactions and provide credit enhancements. In addition, rating agencies, sound legal systems to enforce complex contracts, and sophisticated financial regulation and supervision are essential.

Henrik Gschwindt De Gyor/IMF

From left: Michael Carhill (U.S. Office of the Comptroller of the Currency), Kimberly Slawek (Fitch Ratings), and panel moderator Sunil Sharma (IMF).

Henrik Gschwindt De Gyor/IMF

From left: James Lau Jr. (Hong Kong Mortgage Corporation), IMF Institute Director and panel moderator Leslie Lipschitz, Darryll Hendricks (Federal Reserve Bank of New York), and Lee Meddin (International Finance Corporation).

### Need for more regulation, supervision?

Even in mature markets such as the United States, bank supervisors have encountered problems with securitizations. As Michael Carhill (U.S. Office of the Comptroller of the Currency) explained, in the mid-1990s some banks were substantially weakened when securitizations that ran into problems had to be brought back on their balance sheets. He stressed that such experiences highlighted the need for considerable technical expertise if supervision of securitization is to be effective.

Because different regulations apply to different types of financial institutions, credit risks could flow to institutions that may not necessarily be best equipped to bear them. Should regulations therefore be harmonized across institutions, particularly banks and insurance companies? Although participants did not view regulatory arbitrage as bad per se, they saw problems when transactions were designed primarily to evade accounting rules. Darryll Hendricks (Federal Reserve Bank of New York) argued that complex transactions could not be addressed through rigid rules but required a strong corporate culture of compliance, appropriate incentives for all players, and effective oversight. ■

Burkhard Drees
IMF Institute



©International Monetary Fund. Not for Redistribution

# Research

## A fiscal price tag for international reserves

**Many countries, particularly in Asia, including some key emerging markets, have accumulated vast international reserves since the late 1990s. While higher reserves bring many advantages for these countries, some observers have raised questions about the costs of reserve holdings. After all, reserves could as well be used to other ends. A new IMF Working Paper examines the cost of reserves for the world's 100 largest economies and finds tentative indications that for many countries the cost of international reserves has indeed risen substantially in recent years.**

The world's stock of international reserves has risen rapidly since the late 1990s. Import cover, a popular relative measure for reserve holdings, for the median of the world's 100 largest economies has risen from about three months during the first half of the 1990s to about five months in 2003–04 (see broken line in chart). The increase comes mostly from developing countries: for the advanced economies (outside Asia), import cover has been falling steadily over the 1990s and beyond. Among developing countries, however, the increase in reserves was pervasive: 56 of the 79 largest developing economies included in the study increased their import cover from 1990 to 2004.

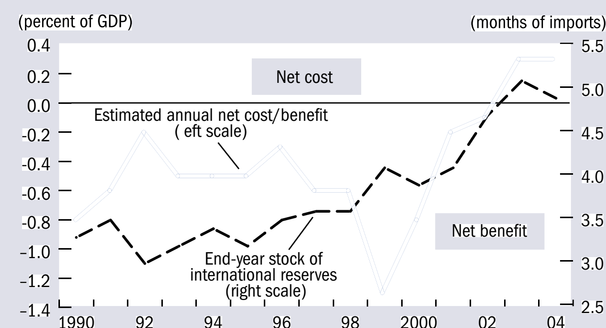
### Benefits and costs

Most countries have reaped significant benefits from increasing their reserves. In particular, they have been buying "insurance" against domestic and external economic and financial market shocks. By reducing credit risk, higher reserves have contributed to the sovereign rating upgrades many developing countries have seen in recent years. Better ratings, in turn, have contributed to narrower spreads and lower borrowing costs. Thus, higher international reserves have often provided not only the relatively intangible benefits of reducing crisis risk but also the very tangible benefit of a lower public interest rate bill, freeing up fiscal space.

At the same time, however, reserves have costs attached to them. First, there is an opportunity cost: instead of being invested in usually low yielding instruments like treasury bills issued by reserve currency countries, reserves could be used to finance public capital expenditure or to pay down external debt and reduce the associated interest bill. Second, there often is a cost from sterilization of reserve increases: many central banks offset at least part of the increase in liquidity created by reserve accumulation by selling domestic instruments, which usually bear higher interest than the assets in which international reserves are invested. Third, there is often a cost from revaluation: if a country's domestic currency appreciates against the currencies it holds as reserves, there is a quasifiscal loss—of course, there might also be a gain if the domestic currency depreciates, but reserve growth is more likely to be followed by appreciation. Together, the opportunity cost, the sterilization cost, and the revaluation cost can have a substantial (quasi) fiscal impact, either directly through lower central bank profits or indirectly through forgone alternative uses of public funds.

**Reserves are becoming costlier**

Most countries "lost money" on their reserves during 2002–04 in contrast to 1990–2001 when most "made money."[1]




[1]Based on rough estimates of the costs and benefits of international reserves for the world's 100 largest economies.
Data: IMF, *International Financial Statistics* and *World Economic Outlook*, and author estimates.

### Rising costs

There is anecdotal evidence that the net cost of many countries' reserves has been rising in recent years. Clearly, higher reserves have saved many countries money through better ratings and lower interest payments. But at the same time, higher reserves—in tandem with lower world interest rates—have increased opportunity and sterilization costs, and many central banks have suffered losses as their currencies have appreciated against the reserve currencies.

A closer look at the benefits and costs of international reserves for the world's 100 largest economies tentatively confirms that reserves have become costlier during the past couple of years: rough estimates suggest that while most countries "made money" on their reserves during 1990–2001, most of them "lost money" during 2002–04 (see solid line in chart). Over 1990–98, countries were



©International Monetary Fund. Not for Redistribution

reaping an estimated median net gain of about 0.5 percent of GDP. In 1999, when the U.S. dollar appreciated significantly against a large number of other currencies, the estimated net gain amounted to a record 1.3 percent of GDP. In 2003–04, however, when the U.S. dollar weakened across the board, the estimated median net gain turned into an estimated net loss of about 0.2–0.4 percent of GDP. These estimates do not include the potentially substantial cost of sterilization, because of the limited availability of data on sterilization operations in most countries.

Clearly, the recent weakness of the U.S. dollar has been the most important driver of the increasing cost of holding reserves. But a number of other factors have been at play as well: on the benefit side, the estimated savings from lower borrowing costs have been rising; on the cost side, rising reserve holdings have driven up opportunity costs. Falling world interest rates worked both ways: they increased costs by lowering financial returns on the reserves, but reduced costs by lowering the cost of not repaying external debt.

### Cost drivers

Evidently these are rough estimates of global trends; how much an individual country gains or loses from its reserves will depend on a number of factors. The benefit from lower borrowing costs will be highest in countries where international reserves have a significant effect on perceived credit risk, such as in countries with "soft" currency pegs. The opportunity cost will be higher in countries with high external debt (at market interest rates) and in countries with low capital stocks. The sterilization cost will be higher in countries with high domestic interest rates. The revaluation cost will be higher in countries whose currencies undergo relatively large appreciations, perhaps because they are on a structural long-term trend of real appreciation against industrial country currencies, as tends to be true of many emerging markets.

Dividing the 100 countries into five regions reflects some of these insights. During the 1990s, the estimated median net benefit from international reserves was generally lowest in the advanced economies and in the Middle East and Central Asia. This reflected in the first case mainly relatively low reserves-to-GDP ratios that limited the potential for financial returns relative to GDP, and in the second case numerous U.S. dollar pegs, which limited revaluation gains when the U.S. dollar was strengthening against many currencies, and high opportunity costs due to relatively low capital stocks. The estimated net benefit was generally highest in the emerging market economies of Europe and Latin America, reflecting relatively high estimated revaluation gains and relatively high estimated savings from lower borrowing costs. Estimated median gains or losses in the Asia-Pacific region and sub-Saharan Africa mostly fell in the middle between the other four regions. In Asia, this reflected many U.S. dollar pegs and generally low external debt and high capital stocks; in Africa, it reflected generally low levels of reserves relative to GDP (until recently) and little external debt at market rates.

The 2004 estimates for some of the countries with the largest reserve accumulations in recent years also reflect differences in the incremental impact of reserves on borrowing costs and the revaluation costs from the weaker U.S. dollar. The estimated net cost tended to be highest in some of the emerging markets that combined large reserves with strong credit ratings and sometimes floating currencies or euro pegs. At the same time, the estimated net cost was lowest (often negative) in some of the higher-risk emerging markets.

### Caveats and conclusions

There are a number of tricky issues to bear in mind when putting a fiscal price tag on international reserves: ideally, data on individual countries' reserve asset allocation and sterilization operations would be needed for a more accurate assessment; the relationship between reserves and spreads is likely to change over time; and the social cost of forgone public investment is difficult to pin down both conceptually and empirically. However, sensitivity tests have shown that the results cited here are sufficiently robust against changes in the underlying assumptions for general conclusions to be drawn, although the findings for individual countries may display higher sensitivities.

What does this mean for policies? This will ultimately depend on the individual country circumstances that determine the benefits and costs of holding reserves. Many countries, however, are increasingly considering alternative ways of self-insurance (such as the development of local securities markets) or improvements in reserve management (see, for example, IMF *Global Financial Stability Report*, September 2004) against the background of rising costs of holding international reserves. ■

David Hauner
IMF Fiscal Affairs Department

Copies of IMF Working Paper No. 05/81, *A Fiscal Price Tag for International Reserves*, are available for $15.00 each from IMF Publication Services. Please see page 168 for ordering details. The full text is also available on the IMF's website *(www.imf.org)*.



©International Monetary Fund. Not for Redistribution

# Migration strongly affects New Zealand's business cycle

In New Zealand, as in the United States, Canada, and Australia, immigration has been a major source of population growth. But unlike in these other countries, net migration flows to New Zealand have been highly volatile, partly reflecting significant emigration. Such swings have had important effects on the cyclical behavior of the economy and, in particular, on unemployment.

International migration both to and from New Zealand is large. During the past 20 years, permanent and long-term migrants arriving and leaving New Zealand each year have averaged about 1¾ percent of the total population, or 3½ percent of the labor force. As to origin, the number of Asian immigrants has increased in the past decade and accounted for more than one-third of the total in 2003, with immigrants from the United Kingdom and Australia making up the bulk of the rest. Australia has been the most popular destination for those who have departed, attracting more than 40 percent of the total outflows, followed by the United Kingdom and Asian countries.

Compared with the broadly steady inflows to other countries receiving immigrants, flows to and from New Zealand are quite volatile. For New Zealand, net migration flows have oscillated from being significantly positive to being significantly negative. As a result, population growth in New Zealand has also been more volatile than in most other advanced economies.

## Migration and unemployment

The effects of migration flows on the economy, especially unemployment, is a key policy issue in New Zealand. From a theoretical perspective, the effect of migration on unemployment is ambiguous. On the one hand, net immigration increases the labor supply. In the short term, this is likely to raise unemployment if immigrants have skills that substitute for those of existing workers, or if they lack suitable skills to obtain work. On the other hand, immigrants create job opportunities by increasing aggregate demand through their consumption and investment. Their skills can also complement existing jobs and stimulate job creation. In addition, the characteristics of immigrants, such as their countries of origin, education, and skill levels, may also matter for the effect on unemployment.

### New Zealand's economy poised to remain strong

New Zealand's economy has continued to perform well, recording average growth of 4 percent a year over the past six years as a result of extensive structural reforms in the 1980s and 1990s, sustained sound macroeconomic policies, and high immigration in recent years, the IMF said in its annual economic review. Job creation has been exceptional, reducing unemployment to the lowest rate among the countries of the Organization for Economic Cooperation and Development. Government debt has been declining steadily, and inflation has remained within the central bank's target range. The IMF praised the skillful implementation of sound monetary and fiscal policies and wide-ranging structural reforms.

Economic growth rose to almost 5 percent in 2004, led by strong domestic demand. Household consumption was buoyant, reflecting strong income growth partly due to improvements in New Zealand's terms of trade. Fixed investment accelerated as firms enjoyed high profitability and robust sales, leading to tightening capacity constraints.

Inflation picked up as the economy reached a very high level of resource utilization, prompting the Reserve Bank of New Zealand to tighten monetary policy. Considering that risks to inflation are predominantly on the upside, the IMF supported the authorities' decision to maintain a tightening bias, while noting that monetary policy would face a difficult balancing act to avoid an unduly sharp slowing of activity. In addition, while New Zealand's fiscal position is strong, the scope for expansionary policy is limited.

Growth in the near term is projected to slow as consumer spending moderates as a result of a cooling of the housing market and the effects of higher interest rates. In the medium term, growth is expected to average above 3 percent. With limited scope for further increases in labor utilization, the IMF agreed with the authorities that increasing productivity is the key policy challenge.

| New Zealand | 2001 | 2002 | 2003 | 2004 | 2005 Projections |
|---|---|---|---|---|---|
| | | | (percent change) | | |
| Real GDP | 2.6 | 4.7 | 3.4 | 4.8 | 2.8 |
| Domestic demand | 2.6 | 5.6 | 5.3 | 8.0 | 3.6 |
| | | | (percent of labor force) | | |
| Unemployment | 5.3 | 5.2 | 4.6 | 3.9 | 3.8 |
| | | | (percent of GDP) | | |
| Net public debt | 17.0 | 14.2 | 13.7 | 10.8 | 8.7 |

Data: IMF Public Information Notice, May 5, 2005.

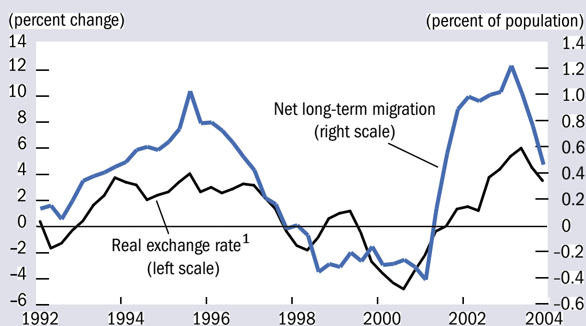


©International Monetary Fund. Not for Redistribution

Chart 1

**More immigrants, higher demand**

Changes in the real exchange rate following net migration suggest that higher immigration is associated with increased domestic demand.



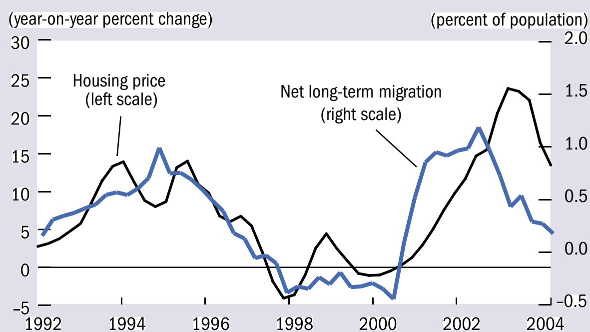

[1]Advanced three quarters and measured as the difference of the inflation rate between nontradable and tradable goods and services.
Data: CEIC data and IMF staff calculations.

To illustrate the importance of swings in migration flows for the business cycle in New Zealand, Chart 1 shows how changes in the real exchange rate (measured as the difference between the inflation rates in nontradable and tradable goods and services) tend to follow net immigration flows, suggesting that higher net immigration is associated with an increase in domestic demand. Immigrants' effect on demand is particularly evident in the housing sector, where it helped fuel sharp rises in prices in recent years (see Chart 2).

Chart 2

**Migration and housing**

Migration has affected housing prices over the years.




Data: Reserve Bank of New Zealand.

For New Zealand, empirical analysis shows that an increase in net immigration tends to reduce the unemployment rate while increasing labor force participation. For the analysis, a system of equations including the unemployment rate, real wage, net migration rate, and labor force participation rate is estimated to take into account the interdependence of these variables. The results suggest that immigrants, through their effect on demand, help raise labor force participation by enhancing job prospects. In addition, by generating greater demand and limiting wage growth, they create more jobs than they themselves occupy.

The effect of migration on unemployment depends on the composition of the migration flows in certain respects. Net migration from Australia is found to induce a stronger reduction in the unemployment rate than that from other countries, suggesting that migrants to and from Australia may have a better match in their skill set with local workers than those from other countries. This conclusion is perhaps to be expected, as New Zealand has a common labor market and other close economic ties with Australia. However, a higher share of skilled migrants in the net inflow—measured by their declared occupations—does not seem to have an additional effect on the unemployment rate, suggesting that skilled migrants have not in general been more successful in their job search than unskilled migrants.

## Policy considerations

Looking ahead, the slowdown in net immigration experienced by New Zealand in 2004 is expected to continue in the coming years as the global economy is projected to remain relatively strong. A simulation indicates that the projected reduction in net immigration would lead to a rise in the unemployment rate by close to half a percentage point over the next two years, which would tend to dampen inflationary pressures. These results highlight the continuing need for New Zealand's economic policymakers to take into account the outlook for international migration flows, which depend on economic developments in other countries as well as in New Zealand, when formulating domestic monetary and fiscal policies. ■

Li Cui
IMF Asia and Pacific Department

More information on New Zealand can be found in IMF Country Report Nos. 05/152 and 05/153, which are available on the IMF's website (*www.imf.org*).



©International Monetary Fund. Not for Redistribution

# Improving the quality of public spending

In many countries—especially in Latin America—budget constraints have limited public investment and led to infrastructure bottlenecks in some places. To boost investment without causing destabilizing fiscal imbalances, many governments are turning to public-private partnerships (PPPs), but these are not without risks. At a recent seminar (see box), sponsored by the IMF and the government of Brazil, representatives from Latin American and industrial countries, international financial institutions, and academics discussed how to improve public investment quality.

The declines in public infrastructure investment reflect a variety of factors, Gerd Schwartz (IMF's Fiscal Affairs Department (FAD)) explained. They include a decrease in public saving, a high degree of revenue earmarking, a growing preference for a smaller public sector, and a need for continued fiscal consolidation. He pointed to four ways of strengthening public investment: reforming the public sector, including the civil service and social security system, to help reduce current expenditure; improving tax administration to mobilize revenues; reducing revenue earmarking and reallocating public expenditure to investment; and strengthening expenditure management systems to make investments more efficient.

Most countries—particularly those with high debt—had little room to increase public investment by relaxing fiscal policy, Schwartz said, adding that such room cannot be created merely by altering fiscal accounting rules.

Common problems in managing public investment include paralyzed or uncompleted projects, cost overruns, white elephants, and a preference for new projects rather than rehabilitating and maintaining existing infrastructure. To avoid some of these pitfalls, Israel Fainboim (FAD) suggested that public investment projects be selected following a rigorous investment appraisal, which has been facilitated by computerization and new methodologies for assessing and quantifying benefits. Eivind Tandberg (FAD) recommended that public investment (and PPPs) be analyzed in the context of a rolling multiyear expenditure framework that takes into account the implications of projects for future recurrent operating expenditures. Strong coordination between finance and planning ministries is needed, he said, especially in countries where the finance ministry prepares the current expenditure budget and the planning ministry is in charge of the capital expenditure budget—which is common in Latin America.

Osvaldo Feinstein (World Bank) and Brian Olden (FAD) proposed criteria for cash allocations that favor projects that are executed most efficiently. In Chile, Mario Marcel (Ministry of Finance, Chile) explained, both the planning and finance ministers review and approve investment appraisals, which have been contracted to independent assessors through a competitive process. Chile has also created a "Competitive Fund" that allows all public entities to compete for new investment funding.

With the exception of Chile, however, Latin American countries still have a long way to go before they achieve best practices in this area. Even though several countries carry out some sort of cost-benefit analysis, the results do not necessarily inform budgetary choices, and widespread weaknesses in medium-term investment budgeting contribute to delays in project execution.

### Efficiency first

A recent World Bank study concluded that poorly structured PPP projects have been pervasive over the past decade and have generated considerable fiscal risks. What's more, countries risk giving priority to PPPs at the expense of improving existing procedures for public investments. In this regard, the United Kingdom may be worth emulating. There, PPPs are simply seen as one of several procurement methods for projects that have already been approved, according to Edward Farquharson (Partnerships U.K.).

Participants generally agreed that PPPs should be used to secure efficiency gains: the choice between a PPP and direct public investment should reflect cost-effectiveness rather than financing constraints. However, much of the current interest in PPPs is driven by the desire to mobilize additional resources to fund infrastructure development—regardless of efficiency considerations.

For now, there are no internationally agreed fiscal accounting and reporting standards for PPPs. The IMF is advising that all future costs of PPPs be fully disclosed and taken into account when undertaking debt sustainability analysis for countries. ■

Eivind Tandberg
IMF Fiscal Affairs Department

The seminar was held on April 25–27 at the National Institute for Public Administration in Brasilia. It was cohosted by the IMF's Fiscal Affairs Department; the IMF Institute; the Brazilian Ministry of Planning, Budget, and Management; and the Brazilian Ministry of Finance.

In 2004, FAD proposed a new framework for analyzing public investment. The framework has since been tested in eight pilot country studies, including Brazil, Chile, Colombia, Ethiopia, Ghana, India, Jordan, and Peru.



©International Monetary Fund. Not for Redistribution

## HIPC debt relief (status as of May 26, 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 | 5.6 |
| Chad | May 2001 | Floating | 14.3 | 8.6 |
| Congo, Democratic Republic of | July 2003 | Floating | 228.3[3] | 2.3 |
| Ethiopia | November 2001 | April 2004 | 45.1 | 46.7 |
| 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 | April 2005 | 22.7 | 22.7 |
| 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 | 31.2 | 34.0 |
| Rwanda | December 2000 | April 2005 | 33.8[4] | 33.8 |
| 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 | April 2005 | 468.8 | 468.8 |
| **Total Enhanced HIPC** | | | **1,590.3** | **1,303.6** |
| **Combined total for 28 members** | | | **1,825.5** | **1,522.2** |

**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 12.98 million subject to receipt of satisfactory financing assurances from other creditors.

Data: IMF Finance Department.



©International Monetary Fund. Not for Redistribution

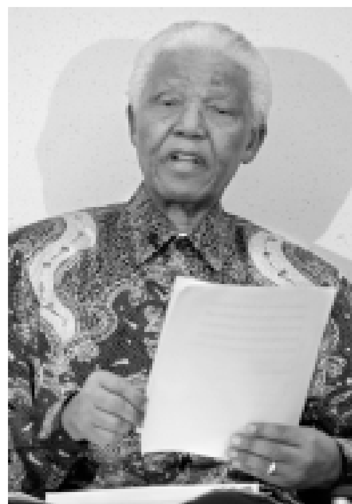
# Forum

## Nelson Mandela's call to action:

# Rich countries should do more to respond to Africa's development priorities

"The United States and other donor nations should provide substantially greater economic assistance on terms that are more flexible and responsive to the priorities set by Africans themselves," urged Nelson Mandela, former president of South Africa and former head of the African National Congress, on May 16 at the Brookings Institution in Washington, D.C.

With the next Group of Eight (G-8) Summit set for July 6–8, Mandela reminded the audience that this gathering of the rich countries' leaders will provide a historic opportunity for the G-8 to demonstrate its political will to help Africa meet the Millennium Development Goals. And Africa's people "expect nothing less." On the Summit's agenda are a number of issues of concern to Africa, including forging agreement among G-8 leaders to take action on doubling aid to the region, opening rich countries' markets to African exports, and granting more debt relief.



Henrik Gschwindt De Gyor/IMF

Mandela: "The good news is that a new democratic consensus is taking hold across the continent."

Mandela cited health care and education as the two areas where foreign aid could be spent with the greatest potential impact. He underscored the pressing need to provide greater access to treatment for Africa's "greatest scourges"—HIV/AIDS, malaria, and tuberculosis—emphasizing that "freedom, after all, means nothing to someone left to die at the mercy of these preventable and treatable diseases." He also highlighted the need for promoting education at the primary and the secondary levels, along with revitalizing African universities, given the severe shortage of highly trained people who are required for furthering the region's development.

"I am pleased that President Bush has committed to a new and more performance-based approach to granting foreign assistance, called the Millennium Challenge Account," Mandela remarked, noting that education and health care are also stated priorities for U.S. foreign aid. In addition to President Bush's Emergency Plan for AIDS Relief, Mandela acknowledged the many contributions of U.S. private foundations and nongovernmental organizations, including the Bill and Melinda Gates Foundation. He also urged greater efforts to reduce the price of antiretroviral and other drugs.

While welcoming further assistance from foreign partners, Mandela underscored that Africans also must rise to the challenge and fully play their part. Here, he outlined his hope that the Mandela Legacy Organizations—three charitable organizations established by Mandela in his own name—will contribute significantly. These organizations include the Nelson Mandela Children's Fund (which works for the well-being of children), the Nelson Mandela Foundation (which promotes improvements in the quality of and access to primary and secondary education), and the Mandela Rhodes Foundation (which awards university scholarships to build leadership capacity at the tertiary education level).

African leaders, Mandela added, need to abide by internationally accepted standards of transparency and good governance and should hold each other responsible for meeting these standards through measures such as the African Union's Peer Review Mechanism. The good news, he added, is that a new democratic consensus is taking hold across the continent. ■

Jacqueline Irving
IMF External Relations Department

The full transcript of Nelson Mandela's remarks is available at *www.brookings.edu/comm/events/20050516.htm.*

**Laura Wallace**
Editor-in-Chief
**Sheila Meehan**
Managing Editor

**Christine Ebrahim-zadeh**
Production Manager

**Camilla Andersen**
**Jacqueline Irving**
**Conny Lotze**
Assistant Editors

**Maureen Burke**
**Lijun Li**
**Kelley McCollum**
Editorial Assistants

**Julio Prego**
Graphic Artist

**Graham Hacche**
Senior Advisor
**Prakash Loungani**
Associate Editor

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 22 times a year, plus *IMF in Focus.* Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on *National Geographic's Atlas of the World,* Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Text from the *IMF Survey* may be reprinted, with due credit given, but photographs and illustrations cannot be reproduced in any form. Address editorial correspondence to Current Publications Division, Room IS7-1100, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org.

To request an *IMF Survey* subscription ($109.00 annually for private firms and individuals) or IMF publications, please contact IMF Publication Services, Box X2005, IMF, Washington, DC 20431 U.S.A.
Tel.: (202) 623-7430;
fax: (202) 623- 7201;
e-mail: publications@imf.org.
The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere.



©International Monetary Fund. Not for Redistribution