STATEMENT BY THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Attached for information of the Members of the Development Committee is a Statement by the Managing Director of the International Monetary Fund, Mr. Horst Köhler, for the Committee’s September 25, 2000 meeting.

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DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR’S WRITTEN STATEMENT

1. Since the 2000 Spring Meetings, the IMF has pressed ahead in implementing the agenda to make the international financial system more resilient, to strengthen its ability to prevent and manage financial crises, and to enhance the effort to promote equitable growth and alleviate poverty, especially in low-income countries. Working in close collaboration with the World Bank and other international institutions, and through our dialogue with individual member countries, important progress has been made on many fronts. However, a great deal remains to be done, both to deepen work in these areas and to adapt the policies of the IMF and its members to changing global realities.

2. The global economy has continued to strengthen in 2000 in all the major regions, and growth is projected to be the strongest in over a decade, with prospects of continued high levels of growth in 2001, in all major regions of the world. This strong performance owes much to sound macroeconomic policies in advanced and developing countries, and the determined adjustment efforts in most crisis countries. However, there are risks to the outlook. First, world oil prices have risen to considerably higher levels than earlier expected and, if sustained, will adversely affect global growth in 2001. The effect could be particularly significant for oil-importing developing and emerging market countries, especially for the poorer developing countries. Second, a number of economic and financial imbalances continue to exist in the global economy, including the uneven pattern of output and demand growth among the three major currency areas, the associated imbalances in their external current accounts, and high equity valuations. Some progress has been made toward resolving these imbalances, but the possibility that they may unwind in a disorderly fashion remains a risk to the global expansion and financial markets.

3. We must use this period of relatively calm world economic conditions productively, deepening our efforts to strengthen the international financial system, to provide better growth opportunities for all our member countries and to make crises less frequent and less severe. Equally important, the international community must intensify its focus on promoting broadly-shared prosperity. We must help ensure that the opportunities of globalization are accessible to all, and support the efforts of poorer countries to take advantage of these opportunities. This is a collective responsibility of the entire international community, to which the IMF, World Bank, and other international organizations must contribute according to their particular mandates and areas of responsibility.

4. In my first months at the IMF, I have consulted widely within the Fund’s membership, and with outside experts and civil society, to explore what our members really need from the institution. In the process I visited many countries in Africa, Asia, Europe, and Latin America. In developing and emerging market countries, I heard many criticisms and complaints about how we do business. But I also heard how much these IMF member countries want to continue benefiting from the IMF’s advice and support, with due regard for their concerns. These discussions helped me to formulate a vision of the future role of the IMF, which I will be outlining at the Annual Meetings next week. Today I would like to mention some key themes of that vision, which are particularly relevant to our work with developing countries.
First, the IMF needs to focus its activities on its core macroeconomic areas of responsibility, while strengthening its work on financial sector issues;

Second, the IMF will work to achieve the best possible complementarity with other international institutions, especially the World Bank, in order to maximize the effectiveness of our joint efforts in support of countries’ adjustment efforts and the achievement of equitable global growth and poverty reduction. Jim Wolfensohn and I recently published a statement underscoring our determination to enhance cooperation between the two institutions, and we are exploring additional ways to do so, building on our successful interaction on financial sector issues, standards and codes, HIPC debt relief, and assistance to low-income countries;

Third, the IMF must be a partner to its members, supporting and encouraging their efforts to implement good policies. In so doing, we must take into account their differing economic circumstances, respect their unique cultural and political traditions, and be mindful of the social repercussions of adjustment programs. In our partnership, the IMF must nourish the universal and cooperative nature of the institution—one in which the views and perspectives of all its members are given careful consideration;

Fourth, we will be reinforcing our efforts to ensure ownership and sustained implementation of countries’ IMF-supported programs. Efforts are underway to streamline and simplify policy conditionality to focus it on key issues for the achievement of members’ macroeconomic objectives and sustained growth. We need also to strengthen and prioritize our technical assistance (in collaboration with other providers); and

Finally, building on the important progress already achieved, it will be important to further enhance the transparency and openness of the Fund, including through a more effective two-way dialogue with the public, civil society, and with markets. In this connection, we at the IMF will watch with interest and participate in Jim Wolfensohn’s Global Gateway Initiative.

Against this backdrop of my vision for the future role of the IMF, I would like to review the IMF’s recent progress in helping to ensure that the international financial system provides better opportunities for prosperity for all member countries, especially low-income countries.

I. Strengthening the International Financial Architecture

The globalization of markets provides substantial opportunities for achieving sustained growth and higher living standards throughout the world. Together with the international community, the IMF has continued to make progress in strengthening the international financial system to help prevent crises and improve their resolution, as well as to promote sustained growth and broadly-shared prosperity.

For this purpose, we are bringing this work together through the IMF’s surveillance activities, reforming the IMF’s lending facilities, and fostering constructive engagement with the

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1 The IMF seeks to promote international financial stability and sustained growth. In doing so, its core areas of responsibility are macroeconomic stabilization; sound monetary, fiscal and exchange rate policies (along with their institutional underpinnings and closely-related structural reforms); financial sector issues, including the functioning of both domestic and international financial markets.
private sector. We are also taking steps to strengthen the provision of technical assistance in support of these efforts.

- **Early detection and management of external vulnerability.** Efforts are being made to strengthen the early detection and assessment of external vulnerabilities through improvement in the collection and dissemination of economic and financial data: SDDS (Special Data Dissemination Standards) subscribers have to disseminate their data to an agreed level of coverage, timeliness, and periodicity; benchmarks have been adopted for the provision of data to the IMF in the areas of foreign exchange reserves, foreign currency liquidity, and external debt. At the same time, the IMF together with the international statistical community is developing a common framework for assessing data quality. Draft guidelines on the management of public debt and foreign exchange reserves have been developed by the IMF, World Bank, and other institutions. Also, work is under way to develop a core set of macro-prudential indicators to enhance capacity for early detection and management of external vulnerability indicators, and to develop principles in collaboration with the World Bank for prudent external liability management.

- **Strengthening financial systems.** The IMF has continued to intensify its help to countries, in close collaboration with the Bank, to identify vulnerabilities and structural and developmental needs in the financial sector and to initiate prompt corrective action. The joint Bank-IMF pilot Financial Sector Assessment Program (FSAP) has worked well and is an effective tool in this regard, and has been extended from the initial, now completed, 12 pilot cases, to an additional 24 countries in FY 2001. The provision of capacity-building technical assistance is an important complement to these efforts and the Bank and IMF are heavily engaged in this task; we are seeking collaboration with other institutions and agencies to provide additional resources for technical assistance as well as to support our work on the FSAP. Work is also under way with other international organizations to better assess financial sector vulnerability. The IMF has had preliminary discussions on its role in assessing financial sector weaknesses in offshore financial centers (OFCs) and, in cooperation with the Bank, has begun a program of overseeing financial sector vulnerabilities arising from OFCs. Furthermore, we are looking to engage the private sector in our efforts to better understand the working of international financial markets and prevent crises. The first meeting of the Capital Markets Consultative Group (CMCG), earlier this month, was an important step in this direction. In other areas we have given greater prominence to the appropriateness of a country’s exchange rate system, and are continuing to work on issues surrounding the sequencing of financial sector reform and capital account liberalization.

- **Standards and Codes.** The development and implementation of standards and codes can play an important role in providing guidance for reform and capacity building, and in improving the resilience of economic and financial systems. Increasing emphasis is being given to the dissemination and adoption of standards in areas of direct operational concern to the IMF—data dissemination, banking supervision, and transparency of fiscal, monetary and financial policies—including through the provision of significant technical assistance, and the development of supporting documents and assessments. Other international institutions

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2 Developments in these areas of the IMF’s work to strengthen the financial system are described in more detail in my report to the International Monetary and Financial Committee on *Progress in Strengthening the Architecture of the International Financial System and Reform of the IMF*. 
have made progress in developing standards in other areas such as securities and insurance regulation, accounting and auditing, payments systems, and insolvency. Important progress has also been made in preparing assessments of members’ implementation of standards through Reports on the Observance of Standards and Codes (ROSCs). This work is being undertaken in a shared ownership approach whereby different international institutions take primary responsibilities for preparing assessments in their areas of expertise; reports on financial system standards are prepared jointly with the Bank in the context of the FSAP program.

- **Transparency and accountability.** Major progress has been achieved in increasing transparency of members’ policies and the IMF’s assessment of these policies, and the IMF’s operations. There has been broad-based voluntary participation of the membership in the pilot program for the release of Article IV staff reports, and the overwhelming majority of members have agreed to publication of Public Information Notices following Article IV consultations and of policy documents underpinning IMF-supported programs. Building on these initiatives, the IMF has recently adopted a general policy of voluntary publication of staff reports and other country papers. As we proceed, we must be careful not to compromise the candor of our policy dialogue with members which is needed for the success of surveillance. In parallel, the IMF has continued to increase the transparency of its operations, including the recent publication of the IMF’s Financial Transactions Plan. We are also enhancing our dialogue with civil society and the private sector (including through the recently established CMCG). The Executive Board has established an independent Evaluation Office (EVO) to further enhance transparency and accountability of IMF activities.

8. Prevention is the first line of defense against financial crises. But we have also been seeking to hone the IMF’s tools for managing and resolving crises.

- **IMF financing facilities.** The experience in 1997-99 demonstrated that the IMF’s financing facilities enable it to play a central role in crisis management, but also revealed areas for further refinement. Progress has been made in reviewing the Fund’s nonconcessional financing facilities to ensure that they are better adapted to an environment of large and integrated global capital markets and members’ needs. One of our guiding principles is that the use of Fund resources should be both limited and temporary, so that the Fund’s resources are available to those that need them most. To this end, the IMF’s Executive Board has agreed on adjustments to rates of charge and maturities that will enhance the revolving character of Fund resources. As the recent financial crises have shown, globalization is not without risk, and agreement has been reached on modifying the Contingent Credit Lines (CCL) to enhance their effectiveness in helping members with sound policies to weather crises and to resist contagion; I believe the reformed CCL can be an important new instrument that will enable the Fund to prevent crises by supporting countries with strong policies.

- **Private sector involvement.** There has been good progress in our efforts to ensure appropriate involvement of the private sector in managing and resolving crises. The IMF has encouraged the use of policies that contribute to both crisis prevention and resolution, including establishing a regular dialogue between member governments and their private creditors, collective action clauses, and contingent lines of credit. Moreover, progress has
been made in reaching broad agreement on a framework to guide private creditors’ involvement in resolving crises. Within this framework, a balance is needed between clarity and operational flexibility anchored in an agreed set of principles. In cases where the member’s financing needs are moderate—or where needs are large, but the member has good prospects of regaining market access in the near future—strong adjustment policies with IMF financial support could be expected to catalyze private sector involvement. In other cases, when an early restoration to market access is not foreseen, and a country faces an unsustainable medium-term debt problem, more concerted approaches may be necessary. The availability of IMF financing is limited and the IMF should minimize moral hazard as much as possible. In this context, reliance on a catalytic approach at higher levels of access would require substantial justification. Countries should make every effort to reach voluntary agreements with their creditors; however, in exceptional circumstances, members may need to initiate a standstill. In such cases, if early support is considered essential for the success of the member’s adjustment efforts, and the member is making a good faith effort to normalize creditor-debtor relations, the Fund will be prepared to lend despite arrears to private creditors.

II. Supporting Social Development and Poverty Alleviation

9. Poverty remains unacceptably high, and in the past year important progress has been made towards elaborating effective poverty reduction strategies. There are many dimensions to poverty reduction and, more broadly, countries’ social and institutional development and the achievement of sustained equitable growth. To meet this challenge it is important that, together with the international community, an integrated and coherent strategy be pursued across several fronts.

10. The IMF has an essential role in the process of poverty reduction, to which it is committed. The IMF will promote macroeconomic stability and higher and equitable growth, which is essential for sustained poverty reduction in low-income countries. Our efforts to strengthen the international financial architecture and to better integrate member countries in the global economy will help ensure that all countries benefit from rising global prosperity. For this purpose, the IMF will sharpen its focus on its core mandate in macroeconomic and related structural areas, and rely more on the World Bank and other international institutions to promote needed social, as well as structural and institutional reform. To enhance the effectiveness of these complementary efforts we are strengthening our collaboration and coordination with other institutions, especially the Bank. For example, the Bank-IMF Financial Sector Liaison Committee (FSLC) and the Joint Implementation Committee (JIC) have played an active and effective role to monitor progress, and accelerate wherever possible, the collaborative work of the two institutions on financial sector issues and the implementation of the HIPC (Heavily Indebted Poor Countries) Initiative and PRSP approach, respectively.

11. Success in reducing poverty requires work on many complementary fronts. The Bank’s initiatives to enhance its support for developing countries, that will be discussed at the meeting of the Development Committee, are an integral part of this work. These initiatives include measures to intensify and better tailor Bank support to the particular needs of member countries’ development and poverty reduction strategies, such as an intensified collaborative effort to combat the human and economic toll of the HIV/AIDS pandemic and other communicable
diseases, to protect the environment, and to improve developing countries’ access to information and knowledge.

12. Trade is critical for job creation, growth, and poverty reduction. Further trade liberalization by both advanced and developing countries is needed to ensure that poorer countries can benefit from the expanding global trading system. This would include providing greater access for developing countries’ exports to advanced countries’ markets, especially predictable duty- and quota-free access for the least developed countries and those eligible for the HIPC Initiative. At the same time, developing countries need to implement outward-oriented reforms that would permit trade expansion to promote development and poverty reduction. Advanced countries can also make an important contribution to supporting countries’ development efforts by stepping up the level of official development and technical assistance, and by strengthening donor coordination and reducing excessive administrative burdens placed on recipients.

13. Post-conflict countries face particularly difficult challenges in trying to restore social order and economic growth, as well as in participating in the enhanced HIPC Initiative. Today the IMF is involved in some way in almost every post-conflict country. We are ready—at as early a stage as is feasible—to provide advice and technical assistance and, when appropriate, financial assistance, working closely with the World Bank and other international institutions and bilateral partners. IMF financial assistance to post-conflict countries is provided under our policy on emergency assistance, which generally provides financing of 25 percent of quota. Last year, the IMF’s Executive Board agreed on steps to improve the terms of emergency financial assistance provided to low-income post-conflict countries, and also to stand ready to provide additional access of up to 25 percent of quota in some cases, over a longer period. For the poorest countries, the period covered by post-conflict emergency assistance can count as part of the track record required to qualify for debt relief under the HIPC Initiative. Recognizing the special difficulties faced by the few post-conflict countries with large protracted arrears to the IMF, the IMF’s Executive Board also agreed that their special circumstances would be taken into account in implementation of the IMF’s arrears strategy. But the difficulties faced by post-conflict countries show that more needs to be done. In the coming months this issue will be a priority in the IMF’s work program.

14. The enhanced HIPC Initiative and debt relief given under it have an important role to play in the overall strategy for reducing poverty. I am therefore pleased that since the 2000 Spring Meetings, further progress has been made in implementing the enhanced HIPC Initiative, and debt relief under the enhanced Initiative has already been provided to 10 countries. Also, the IMF and the Bank have taken steps together to accelerate the implementation of the HIPC Initiative with the aim of helping 20 countries reach their decision points and start to receive debt relief in 2000. For this purpose, the Boards of the Bank and IMF have agreed that track records prior to the decision point should continue to be interpreted flexibly on a case-by-case basis. The introduction of floating completion points that focus on key policy actions to promote growth, poverty reduction and the maintenance of macroeconomic stability based on country-owned Poverty Reduction Strategy Papers (PRSPs), is expected to make it possible to accelerate the

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3 Progress in implementing the HIPC Initiative and Poverty Reduction Strategy Papers (PRSPs) is described in more detail in the Joint Memorandum from the Managing Director of the IMF and the President of the World Bank: HIPC Initiative and PRSPs—Progress Reports, and the joint Bank-Fund reports, The Enhanced Initiative for HIPCs—Review of Implementation and PRSPs—Progress in Implementation.
completion point. Furthermore, we are actively using the Joint Implementation Committee to monitor progress, and speed it where possible. But debt relief must be used effectively. It is important that countries demonstrate a strong commitment and a clear link between debt relief and poverty reduction, including establishing a framework for tracking public expenditure on poverty reduction as well as tackling problems of governance and corruption. We urge all eligible countries to adopt expeditiously policies to effectively translate debt relief into poverty reduction that could be supported by IDA and IMF-supported adjustment programs so that they could benefit from debt relief. There remain a number of countries facing serious problems of conflict, civil unrest, and poor governance, and for the moment, the international community must use other instruments to help these countries. In this context, the Bank and IMF Boards have supported the extension for two years of the sunset clause under the Initiative to end-2002 by which time countries need to have adopted Bank-IMF supported programs.

15. The full participation of all creditors—both multilateral and bilateral—is essential to achieve the speedy implementation of the HIPC Initiative. I am pleased to report progress in the participation of some multilateral creditors, and I welcome the commitments made by the Paris Club creditors, including those exceeding the required HIPC Initiative assistance. I urge all donors to fulfill their pledged commitments and provide additional contributions as expeditiously as possible so that multilateral institutions, including the IMF, can provide timely debt relief under the HIPC Initiative. I call upon the international community to help poorer creditors that may face difficulties in this process; the Bank and IMF are working to find flexible ways to ensure their full participation.

16. The new approach to more effectively achieve poverty reduction is based on countries’ own poverty reduction strategies, which are embodied in Poverty Reduction Strategy Papers (PRSPs), that are the basis of IMF and Bank concessional lending to low-income countries and are an integral part of the enhanced HIPC Initiative. I am therefore pleased to report that the PRSP approach has been widely supported by countries and development partners and is rapidly gaining momentum. By mid-September 2000, 2 full-fledged PRSPs have been considered by the IMF and Bank Executive Boards as well as 13 interim-PRSPs (I-PRSPs); several other countries are in advanced stages of preparing their I-PRSPs. In many cases the provision of information has substantially exceeded the minimum requirements for I-PRSPs; preparatory work has been managed at very high levels of political authority and there has been a greater degree of participation in the preparatory stages than required for I-PRSPs. Countries have drawn on their own prior experiences and have identified priorities for poverty reduction, including broad-based growth, social sector issues, assistance to disadvantaged groups, governance, transparency, and accountability.

17. As countries move ahead, they face challenges in translating interim strategies to well-specified and prioritized full-fledged PRSPs. In particular, there is a need to improve the quality and timeliness of poverty data, to increase the institutional and analytical capacity of government and civil society, and to develop broad-based participatory processes that take account of the views of the poor, while respecting the authority of national parliaments and existing democratic processes. Further analytical work is also needed, particularly on the links between growth and poverty, and Bank and IMF staff are intensifying their research efforts in this area. We must also recognize that there are inherent tensions between the desire to accelerate debt relief and to secure greater country ownership based on broad participatory processes, and the need to ensure that bilateral and multilateral concessional resources are used effectively to promote sustained
growth and poverty reduction. Interim PRSPs and the introduction of interim HIPC Initiative assistance have helped avoid delays in this respect, but this tension will emerge more strongly as countries move to full-fledged PRSPs. Both Bretton Woods institutions are committed to overcoming these tensions, while respecting the essential tenets of the new approach. To this end, the two institutions are developing and providing guidance to countries on the core content of PRSPs, participatory processes, and issues and best practices with respect to aspects of poverty reduction. Furthermore, countries unable to complete a full-fledged PRSP within a year of their initial I-PRSP may provide a progress report as a basis for obtaining continued access to concessional assistance and, where applicable, interim debt relief.

18. The Poverty Reduction and Growth Facility (PRGF) is the key instrument for the IMF to support countries as they implement the PRSP process. Based on the experience with early PRGF country cases, as well as interactions with external partners, we are making important changes to the content of, and process for, PRGF-supported programs. These changes seek to make these programs more closely focused on the IMF’s core areas of expertise, and at the same time more consistent with the broad approach to poverty reduction and with enhanced country ownership. To this end, PRGF-supported programs will incorporate the following changes:

- to help ensure greater country ownership and broad participation, the main features of programs will be drawn from the country’s PRSP, which will entail greater flexibility in the timing and content of the program’s policies;
- programs will be embedded in the overall strategy for growth and poverty reduction;
- support budgets that are more pro-poor and pro-growth, with greater flexibility in accommodating rising budget deficits, if they can be confidently financed on concessional terms, in countries with scope for more productive public spending;
- place greater emphasis on measures to improve public resource management and accountability;
- include careful consideration of the social impact of major macroeconomic adjustment and structural reforms;
- be more selective on conditionality so as to focus on key measures that are central to the success of the country’s strategy, and which match the country’s implementation capacity.

Last but not least, I welcome the Bank’s intention to strengthen the links between PRSPs and IDA assistance through the use of Poverty Reduction Support Credits (PRSCs), which will help assure a clearer division of labor and strengthen the complementarity of the work of the two institutions in implementing the PRSP approach.

19. The global community has made remarkable progress in restoring stability in financial markets and achieving broad-based world economic growth. It has also taken steps to help safeguard these gains and ensure that all may benefit from global economic prosperity and

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4 These changes are described in more detail in *Key Features of PRGF-Supported Programs*. 
achieve significant progress towards poverty reduction. With a renewed and shared purpose, we must work together to achieve the goals of improved living conditions for all. At the IMF, we will strive to strengthen our contribution to meeting the challenge in partnership with country authorities, and official and non-governmental external partners.