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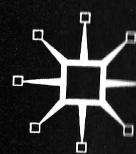
Political Economy

2ND EDITION

State-Market Relations in a Changing Global Order

edited by C. Roe Goddard, Patrick Cronin & Kishore C. Dash



16

The International Monetary Fund

C. Roe Goddard

In this chapter, C. Roe Goddard provides a detailed overview of the evolution of the International Monetary Fund (IMF) and its lending. Goddard notes that—although the IMF's original mandate was limited to monitoring currencies and maintaining currency stability—the explosive growth in the international economy, its increased complexity, and the frequent appearance of system-threatening crises and disequilibrium in the international monetary system have led to an expansion in the nature and scope of the IMF's functions. Under these evolving circumstances and crises, the IMF has come forward and provided a broad array of new forms of lending to deal with the special needs of developing and, more recently, the so-called transitional economies. Most recently, in response to the Asian financial crisis, the IMF has made funding available for countries experiencing exchange rate volatility and has reevaluated the assistance it provides to the most heavily indebted poor countries.

In July 1944, two key multilateral institutions in the international political economy, the International Monetary Fund (IMF or the Fund) and the International Bank for Reconstruction and Development (World Bank), were created. Delegates from forty-five countries attended the meeting in Bretton Woods, New Hampshire, where negotiations over the design and the ultimate birth of the post–World War II monetary system took place. The objective of the Bretton Woods conference was to establish the ground rules for all of international trade and finance. Moreover, it was at the Bretton Woods conference that the multilateral institutions were designed to provide stability to trade and monetary relations and oppose the ever-present potential for a rise of system-threatening economic nationalism. The overriding objective was to prevent the reappearance of virulent economic nationalism, which scholars and policymakers alike had identified as a leading cause of World War II.

The IMF came into official existence on December 27, 1945. Succinctly, its mandate was to stabilize and establish a clear and unequivocal value for each currency, encourage the unrestricted conversion of one currency into another, and oppose practices such as competitive devaluations that had stifled investment flows and brought trade to a virtual halt in the 1930s. Attacking the problem piecemeal, the IMF's immediate postwar objective was to restore exchange rate stability among the currencies of the combatant countries and to provide the basis for peaceful economic exchange. Once monetary stability had been achieved and the foundation set for the expansion of postwar trade, the IMF's charge shifted to ensuring exchange rate stability among all of the world's trading countries.

Since the Bretton Woods conference, the responsibilities of the IMF have grown as new and unforeseen challenges to international monetary stability have appeared. As the lead agency for the international monetary system, it is now entrusted with a wide array of responsibilities for the smooth functioning of the system. Under a number of different scenarios since 1945, the Fund has been called upon to provide financial assistance and preserve the system's stability. For example, countries experiencing severe balance-of-payments problems following the quadrupling of oil prices in 1973–1974 received special assistance. Similarly, the IMF created a special lending facility for countries in need of access to key currencies to counter speculative attacks on their currencies. The IMF has also assisted the most impoverished countries with debt relief and financed the transition to market economies of former Soviet bloc countries. Despite these broader responsibilities and interventions, its fundamental purposes remain to assist in the establishment of a multilateral system of payments; to provide temporary resources to members experiencing balance-of-payments difficulties; and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of its members.

IMF Organization

The Articles of Agreement, which took effect in December 1945, not only outlined the functions of the Fund but also specified its organizational structure. It has remained largely the same to this day. The Articles of Agreement provide for a Board of Governors, an Executive Board, a managing director, a staff of international civil servants, and a council.

The ultimate governing authority within the Fund is the Board of Governors, which presently consists of 183 governors. The individual board members are recruited from the highest echelons of their governments' economic policymaking organizations, often concurrently serving as ministers of finance or as heads of the central banks. The Board of Governors meets only once each year during the combined annual meeting of the IMF and the World Bank. During the remainder of the year, the governors communicate the wishes of their governments to their representatives on the IMF's Executive Board.

Conducting the day-to-day business of the IMF is the Executive Board. It is the organization's locus of power and its permanent decisionmaking organ. The Executive Board is composed of twenty-four executive directors. Currently, there are eight executive directors representing individual countries—China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom, and the United States—and sixteen others who each represent groupings of the remaining countries. The Executive Board selects as its chair the managing director of the IMF. The board meets a minimum of three times per week to address a wide variety of policy, operational, and administrative matters, including surveillance of members' exchange rate policies, provision of financial assistance to member countries, consultations with members, and comprehensive studies on issues of importance to the membership. To minimize confrontation and the potential politicization of sensitive lending decisions, decisions made by the board are based on consensus rather than a formal voting process. Executive Board members and their voting power as of February 8, 2002, are listed in Table 16.1.

The responsibilities of the managing director, the administrative head of the organization, include chairing the Executive Board, participating in the combined annual IMF–World Bank meetings, advising the Group of Seven (G7) or, where relevant, the Group of Eight (G8) leading industrialized countries, and overseeing the Fund's professional staff. Although the managing director is the official head of the organization, the position bestows the director no real power. The director cannot even cast a vote when chairing meetings of the Executive Board.

Historically, the managing director of the IMF has been European, and the president of the World Bank has been a U.S. citizen. While not codified in the original constitution, and certainly subject to change with the increasing economic power of many non-European and non–North American countries, this at least has been the pattern to date. If the recent leadership struggle over the selection of a new director-general for the World Trade Organization (WTO) is a precursor of things to come, we can expect that U.S. and European dominance of the leadership positions of the Bretton Woods institutions will change.

The managing director is chairman of the Executive Board and heads the IMF's staff. Known for its economic expertise, the IMF staff is composed of twenty-five hundred professional employees from 133 countries. The staff is composed mainly of international economists, but it also includes professionals in taxation and public finance, statistics, linguistics, writing, and research. The staff carries out the policies and instructions of the Executive Board, including oversight of borrowers. The majority of staff members work at IMF headquarters in Washington, D.C.; however, a small number are employed in IMF offices in Paris, Geneva, and at the United Nations in New York.

Table 16.1 IMF Executive Directors and Voting Power (as of February 8, 2002)

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[a]	Percent of Fund Total[b]
APPOINTED				
Randal Quarles *Meg Lundsager*	United States	371,743	371,743	17.16
Ken Yagi *Haruyuki Toyama*	Japan	133,378	133,378	6.16
Karlheinz Bischofberger *Ruediger von Kleist*	Germany	130,332	130,332	6.02
Pierre Duquesne *Sébastien Boitreaud*	France	107,635	107,635	4.97
Tom Scholar *Martin Brooke*	United Kingdom	107,635	107,635	4.97
ELECTED				
Willy Kiekens (Belgium) *Johann Prader* *(Austria)*	Austria	18,973		
	Belarus	4,114		
	Belgium	46,302		
	Czech Republic	8,443		
	Hungary	10,634		
	Kazakhstan	3,907		
	Luxembourg	3,041		
	Slovak Republic	3,825		
	Slovenia	2,567		
	Turkey	9,890	111,696	5.16
J. de Beaufort Wijnholds (Netherlands) *Yuriy G. Yakusha* *(Ukraine)*	Armenia	1,170		
	Bosnia and Herzegovina	1,941		
	Bulgaria	6,652		
	Croatia	3,901		
	Cyprus	1,646		
	Georgia	1,753		
	Israel	9,532		
	Macedonia, former Yugoslav Republic of	939		
	Moldova	1,482		
	Netherlands	51,874		
	Romania	10,552		
	Ukraine	13,970	105,412	4.87
Fernando Varela (Venezuela) *Hernán Oyarzábal* *(Spain)*	Costa Rica	1,891		
	El Salvador	1,963		
	Guatemala	2,352		
	Honduras	1,545		
	Mexico	26,108		
	Nicaragua	1,550		
	Spain	30,739		
	Venezuela	26,841	92,989	4.29
Pier Carlo Padoan (Italy) *Harilaos Vittas* *(Greece)*	Albania	737		
	Greece	8,480		
	Italy	70,805		
	Malta	1,270		

Table 16.1 Continued

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[a]	Percent of Fund Total[b]
	Portugal	8,924		
	San Marino	420	90,636	4.18
Ian E. Bennett (Canada) *Nioclás A. O'Murchú* *(Ireland)*	Antigua and Barbuda	385		
	Bahamas, The	1,553		
	Barbados	925		
	Belize	438		
	Canada	63,942		
	Dominica	332		
	Grenada	367		
	Ireland	8,634		
	Jamaica	2,985		
	St. Kitts and Nevis	339		
	St. Lucia	403		
	St. Vincent and the Grenadines	333	80,636	3.72
Ólafur Ísleifsson (Iceland) *Benny Andersen* *(Denmark)*	Denmark	16,678		
	Estonia	902		
	Finland	12,888		
	Iceland	1,426		
	Latvia	1,518		
	Lithuania	1,692		
	Norway	16,967		
	Sweden	24,205	76,276	3.52
Michael J. Callaghan (Australia) *Diwa Guinigundo* *(Philippines)*	Australia	32,614		
	Kiribati	306		
	Korea	16,586		
	Marshall Islands	275		
	Micronesia, Federated States of	301		
	Mongolia	761		
	New Zealand	9,196		
	Palau	281		
	Papua New Guinea	1,566		
	Philippines	9,049		
	Samoa	366		
	Seychelles	338		
	Solomon Islands	354		
	Vanuatu	420	72,413	3.34
Sulaiman M. Al-Turki (Saudi Arabia) *Ahmed Saleh Alosaimi* *(Saudi Arabia)*	Saudi Arabia	70,105	70,105	3.24
Cyrus D. R. Rustomjee (South Africa) *Ismaila Usman* *(Nigeria)*	Angola	3,113		
	Botswana	880		
	Burundi	1,020		
	Eritrea	409		

(continues)

Table 16.1 Continued

Casting Votes of	Votes by Country	Total Votes[a]	Percent of Fund Total[b]
Djibouti	409		
Equatorial Guinea	576		
Gabon	1,793		
Guinea	1,321		
Guinea-Bissau	392		
Madagascar	1,472		
Mali	1,183		
Mauritania	894		
Mauritius	1,266		
Niger	908		
Rwanda	1,051		
São Tomé and Príncipe	324		
Senegal	1,868		
Togo	984	25,169	1.16
		2,159,666[c,d]	99.71[e]

Notes: a. Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that department.

b. Percentages of total votes 2,166,739 in the General Department and the Special Drawing Rights Department.

c. This total does not include the votes of the Islamic State of Afghanistan, Somalia, and the Federal Republic of Yugoslavia, which did not participate in the 2000 regular election of executive directors. The total votes of these members is 7,073—0.33 percent of those in the General Department and Special Drawing Rights Department.

d. This total does not include the votes of the Democratic Republic of the Congo which were suspended effective June 2, 1994, pursuant to Article XXVI, Section 2(b) of the Articles of Agreement.

e. This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

Source: "IMF Executive Members and Voting Power," http://www.imf.org/external/np/see/memdir/eds.htm [accessed February 15, 2002].

Funding the IMF

The Quota System

The IMF is, in effect, "owned" by its members, with ownership distributed in accordance with a system of quotas. The size of each member's quota is determined by a complex formula that incorporates the size of the economy, the percentage of the economy involved in international trade, and the value of foreign-exchange holdings. This quota is the most fundamental element of a member's voting power in the IMF. The number of votes a country possesses is determined on the basis of one vote for each IMF 100,000 currency units (Special Drawing Rights, or SDRs), plus the 250 basic votes each member is automatically granted. Effectively, the system of quotas and voting weights power heavily and favorably toward members with large gross national products (GNPs). In addition to determining voting power, a member's quota also determines the maximum amount of IMF financing to which the country has access. In January 1999, the IMF called for a 45 percent increase in quotas that totaled SDR 212 billion or U.S.$269 billion. The 2002 U.S. quota was just under 18 percent of the total. Together, the industrial countries possess a majority of votes and thus dominate the decisions of the Executive Board.

General Arrangements to Borrow, Special Drawing Rights, and the New Arrangements to Borrow

When the IMF was established in 1944, each member's quota was assumed adequate to provide access to enough international currencies to meet any balance-of-payments problems that might develop; however, the negotiators at Bretton Woods failed to anticipate the explosive growth in world trade flows that occurred after World War II. As trade in global aggregate terms has grown, so has the potential magnitude of current account surpluses and, more worrisome, deficits. To ensure adequate liquidity and keep pace with the growth in world trade and potential balance-of-payments financing needs, the IMF has had to periodically increase members' quotas, a strategy that worked fairly well until the late 1950s. At that time, with quotas alone no longer capable of providing adequate liquidity for the balance-of-payments financing needs of the member countries, a second source of funding known as the General Arrangements to Borrow (GAB) was created to meet heightened liquidity needs.

The GAB, established in 1962, allows the IMF to borrow from the eleven participating countries, the Group of Ten (G-10) industrialized countries, and Switzerland. By matching the interest rate and the maturity of its borrowing and lending, the IMF enhances international liquidity by serving as a conduit for the transfer of funds from countries that possess reserve assets, presumably the G-10 countries, to those that wish to borrow. The G-10 countries, the wealthiest, most industrialized countries in the world, are presumably in the best position to provide the needed additional liquidity.

In addition to the GAB as a source of funding for the IMF, Saudi Arabia and other oil-exporting countries have provided significant resources derived from their balance-of-payments surpluses. When oil prices quadrupled in 1973–1974, the IMF used assets from the surpluses of the oil-exporting countries to provide assistance to countries that faced a significant increase in the cost of energy imports.

Special Drawing Rights as a Source of Liquidity. With the continuing explosive growth in the magnitude of world trade flows, by the mid-1960s the quotas and the GAB combined were no longer adequate to meet burgeoning financing needs. In response, a new reserve asset known as the Special Drawing Right (SDR) was created in 1969. SDRs can best be understood as an international reserve asset. They can be exchanged at an agreed-upon value in lieu of currency. SDRs do not widely circulate and are not in general usage, but they are exchangeable among IMF member countries in transactions among themselves.

Since their introduction, SDRs have generated their share of controversy and opponents. Concerns about SDRs focus on the ease with which a potentially inflationary mechanism was introduced into the system. In the words of Henry Hazlitt, "These SDRs were created out of thin air, by a stroke of the pen" (Hazlitt, 1984: 15). The specific concern is that the introduction of "paper gold," while providing needed liquidity, will undermine moral hazard and substitute for the necessary belt-tightening measures countries experiencing balance-of-payments problems should be undertaking. At the heart of the unease about SDRs is the fear that an expansion of IMF financial resources will lead to an internationalization of individual countries' debt problems, shifting the burden of adjustment from the debtor country to the international community.

Despite these concerns, SDRs have become an accepted mechanism for interjecting additional liquidity into the system. Highlighting its acceptance among the IMF's member countries, countries now pay 25 percent of their quota subscriptions in SDRs, and as of 2001, several IMF members had chosen the SDR as the standard for valuing their currencies, replacing other traditional valuing standards such as the U.S. dollar and Japanese yen.

Initially, the monetary authorities chose to base the value of SDRs on a weighted "basket" of sixteen currencies. The number of currencies composing this basket has diminished over time. In 1981, the basket was reduced to the currencies of the G5 countries. As of January 1, 1999, there were only four currencies in the basket, and their respective weights were the dollar (45 percent), euro (29 percent), yen (15 percent), and pound sterling (11 percent). The precise value of the SDR is determined daily. Its value is more stable than that of any single currency in the basket, given that changes in the value of any of the basket currencies are to a degree offset by changes in the values of other currencies.

New Agreement to Borrow. The newest source of IMF funding is the New Agreement to Borrow (NAB) introduced in 1998. Its creation was largely in response to the crippling and contagious effects of currency and balance-of-payments crises that struck emerging markets in Mexico (1994), East Asia (1997), and Russia and Brazil (1998). The purpose of making these additional funds available is to counter excessive swings in currency values. Rapid access to a considerable sum of foreign currency, in times when the member country's currency is experiencing significant downward pressure from the selling of its currency in the currency markets, allows the country to intervene in the market, purchase its own currency with the foreign currency, lower its supply in the marketplace, and thereby quell excessive swings in the currency's value. In a related situation, under the NAB, funds have also been made available to member countries as precautionary lines of defense against sudden and disruptive losses of market confidence in their currencies because of contagion from difficulties in other countries.

The NAB was established with the participation of twenty-five member countries. Creation of the NAB represents a significant expansion in liquidity, doubling the amount of GAB resources to U.S.$44 billion. Table 16.2 lists the member countries participating in the NAB and their respective credit amounts.

Borrowing from the Fund

In its early years, IMF lending was limited to countries experiencing traditional balance-of-payment problems, but in the more than fifty years since its creation, the organization has responded to a number of disruptive challenges to the smooth operation of the international monetary system and expanded the range of purposes for which it lends. These challenges have included periodic Fund liquidity problems because of aggregate member needs exceeding available assets; the financial dislocation associated with oil price hikes in 1973–1974 and 1978–1979; the debt crisis of the 1980s; currency/capital flight crises of the 1990s; and the special needs of countries making the transition from centrally planned socialist economies to market-based economies.

To address this array of anticipated and unanticipated contingencies, the Fund gives financial assistance to countries under three broad sets of programs. The first program provides balance-of-payments financing through unconditional and conditional tranches. Standby arrangements (SBAs) form the core of the IMF's traditional lending programs. First used in 1952, they are designed to address short-term balance-of-payments problems. The second program provides funding under special facilities for countries that have specific needs and circumstances. The third program provides concessional financing for low-income member countries.

Mainstay of IMF Lending: The Tranche System

A member country approaches the IMF and requests balance-of-payments assistance when its foreign-exchange reserves have been depleted. Most

Table 16.2 NAB Participants and Credit Amounts

Participant	Amount (millions of SDRs)
Australia	810
Austria	412
Belgium	967
Canada	1,396
Denmark	371
Deutsche Bundesbank	3,557
Finland	340
France	2,577
Hong Kong Monetary Authority	340
Italy	1,772
Japan	3,557
Korea	340
Kuwait	345
Luxembourg	340
Malaysia	340
Netherlands	1,316
Norway	383
Saudi Arabia	1,780
Singapore	340
Spain	672
Sveriges Riksbank	859
Swiss National Bank	1,557
Thailand	340
United Kingdom	2,577
United States	6,712
Total	34,000

Source: "The General Arrangements and the New Arrangements to Borrow—A Fact Sheet," August 2001, http://www.imf.org/external/np/exr/facts/gabnab.htm [accessed February 15, 2002].

countries earn adequate foreign exchange to finance their imports and never approach the IMF for assistance. There are several means by which the country can gain foreign exchange. The sale of goods or services in the export market, receipts from foreign tourists, foreign direct investment (FDI) and portfolio flows, or international loans can all generate a foreign-exchange inflow. However, if the combined inflow from these sources fail to equal or exceed imports and foreign debt-servicing needs, the country's foreign-exchange reserves will gradually decline. Upon the depletion of these reserves, the country could experience an abrupt halt to its imports. This is harmful not only to the importing country but to its trading partners as well who have now lost an export market. Through the "lender of last resort" function the IMF attempts to temporarily fill the void by providing balance-of-payments assistance (foreign exchange) to the member country.

This will allow a less abrupt adjustment on the part of the borrowing country and maintain export markets for its trading partners.

Gold or Reserve Tranche. The first option for a country experiencing balance-of-payments problems is accessing that system. Within the tranche system, the country will first access the gold or reserve tranche. A tranche is a slice or a portion, up to one-quarter, of the country's quota denominated in a currency of its choosing or in SDRs. Because of the prominent role the U.S. dollar has played in world trade and the willingness of most trading partners to accept it in exchange, members often request, but are not limited to, the dollar. Historically, other key currencies widely accessed because of their acceptance in international trade transactions are the Japanese yen, British pound, German deutschemark, and more recently, the euro.

When a member country goes to the IMF to obtain balance-of-payments assistance and make a purchase from the first tranche, the currency of choice or SDRs are given with minimal conditions. The only expectation is that the purchasing country will make a "reasonable effort" to overcome its balance-of-payments problems. According to John Williamson, "A member requesting a drawing limited to the first credit tranche was expected to have in place a program representing reasonable efforts to overcome its balance of payments difficulties, but what constitutes reasonable efforts is in practice left to the borrower's discretion, since a country applying for such a drawing is given the overwhelming benefit of the doubt in any difference of view between the member and the Fund" (Williamson, 1982: 65). This remains true today.

After accessing the first tranche, if the purchasing country fails to make the adjustments necessary to earn enough foreign exchange to balance its accounts, it will purchase from the second, the third, and possibly the fourth tranches. Countries drawing on all four tranches can purchase up to 100 percent of their quotas.

Upper Level or Conditional Tranches. The first tranche is known as an unconditional tranche because of the minimal performance requirements placed on the borrower. The second, third, and fourth are conditional tranches with progressively more rigorous requirements for borrowing. When a country seeks to borrow from these conditional tranches, it must comply with specific macroeconomic policies put forth by the IMF. Purchasing from these tranches has generated the most controversy for the IMF, because of the obvious loss of sovereignty in economic policymaking and the progressive intrusion of IMF demands on the borrower.

By imposing these progressively strenuous conditions on borrowers, the IMF seeks to ensure that a country that purchases foreign currencies,

SDRs, or both will be able to overcome its balance-of-payments difficulties and repay the borrowed amount in a timely manner, thereby preserving the revolving nature of IMF resources and ensuring that resources will be available to other countries in time of need. Another reason for imposing stringent conditions is to combat the free-rider problem and ensure that the burden of adjustment is not shifted to the international community.

Before access to the upper tranches is granted, meetings are held between the country's economic leaders and IMF representatives to establish performance criteria for the borrowing country. Following these meetings, a letter of intent is exchanged. The letter outlines the macroeconomic policies that the country has agreed to institute to alleviate its balance-of-payments problems and establishes the performance criteria to be used to measure the country's progress. Keeping the country on a short leash, upper-level or conditional tranche drawings are made in installments and are released when the country has implemented those policies specified in the negotiated agreement and has reached similarly specified performance targets.

12–18 MONTHS

Standby Arrangements. The drawings on the conditional tranches, along with their negotiated agreements and set performance targets, are known as standby arrangements. Standby arrangements are designed to meet the trade financing needs for a twelve- to eighteen-month period. Repayment of standby arrangements is to be made within three-and-a-quarter to five years of each drawing. By September 30, 2001, the number of countries with standby arrangements had been reduced to fourteen from a peak of twenty-two in August 1994. It is also important to note that by September 2001, a large part of the IMF member countries (39 in total) had opted for arrangements under the Poverty Reduction Growth Facility (PRGF), even though the total amount of credit granted was much less than the total credit amount under traditional standby arrangements.[1] The attraction of the Poverty Reduction and Growth Facility is because, unlike other IMF programs, it includes the opportunity for debt forgiveness in its lending program. Table 16.3 lists countries and the amount of IMF assistance they have received under standby arrangements, the extended Fund facility, and the Poverty Reduction and Growth Facility.

Controversial Nature of the Fund's Conditional Lending

Of all of the lending activities of the International Monetary Fund, the conditional lending has been the most controversial and has increasingly placed the IMF in the public spotlight. The IMF historically has been a target of vehement criticism from both the left and the right.

From the left, critics argue that Fund programs are driven solely by ideology, specifically a singular commitment to liberal economic theory and its orthodoxy concerning the limitations of the state and the virtues of

Table 16.3 Standby, EFF, and PRGF Arrangements as of September 30, 2001

Member	Date of arrangement (million SDRs)	Expiration date	Amount approved	Undrawn balance
Standby Arrangements				
Argentina[a]	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Brazil[a]	September 14, 2001	December 13, 2002	12,144.40	8,468.32
Croatia	March 19, 2001	May 18, 2002	200.00	200.00
Ecuador	April 19, 2000	December 31, 2001	226.73	75.58
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Nigeria	August 4, 2000	October 31, 2001	788.94	788.94
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Peru	March 12, 2001	March 11, 2002	128.00	128.00
Serbia/Montenegro	June 11, 2001	March 31, 2002	200.00	100.00
Sri Lanka	April 20, 2001	June 19, 2002	200.00	96.65
Turkey[a]	December 22, 1999	December 21, 2002	15,038.40	5,702.36
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Total			46,289.37	23,153.72
EFF Arrangements				
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
FYR Macedonia	November 29, 2000	November 28, 2003	24.12	22.97
Indonesia	February 4, 2000	December 31, 2002	3,638.00	2,477.20
Jordan	April 15, 1999	April 14, 2002	127.88	60.89
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Ukraine	September 4, 1998	August 15, 2002	1,919.95	726.95
Yemen	October 29, 1997	October 28, 2001	72.90	26.40
Total			8,068.95	5,600.51
PRGF Arrangements				
Armenia	May 23, 2001	May 22, 2004	69.00	59.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	72.40
Benin	July 17, 2000	July 16, 2003	27.00	16.16
Bolivia	September 18, 1998	June 7, 2002	100.96	37.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	16.76
Cambodia	October 22, 1999	October 21, 2002	58.50	25.07
Cameroon	December 21, 2000	December 20, 2003	111.42	79.58
Central-African Republic	July 20, 1998	January 19, 2002	49.44	24.96
Chad	January 7, 2000	January 6, 2003	42.00	20.80
Djibouti	October 18, 1999	October 17, 2002	19.08	13.63
Ethiopia	March 22, 2001	March 21, 2004	86.90	52.14
FYR Macedonia	November 29, 2000	December 17, 2003	10.34	8.61
Gambia, The	June 29, 1998	December 31, 2001	20.61	3.44
Georgia	January 12, 2001	January 11, 2004	108.00	90.00
Ghana	May 3,1999	May 2, 2002	228.80	105.17
Guinea	May 2, 2001	May 1, 2004	64.26	51.41
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Honduras	March 26, 1999	March 25, 2002	156.75	64.60
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Lao People's Democratic Republic	April 25, 2001	April 24, 2004	31.70	27.17
Lesotho	March 9, 2001	March 8, 2004	24.50	17.50
Madagascar	March 1, 2001	March 1, 2004	79.43	68.08
Malawi	December 21, 2000	December 20, 2003	45.11	38.67

Table 16.3 (*continues*)

Table 16.3 Continued

Member	Date of arrangement (million SDRs)	Expiration date	Amount approved	Undrawn balance
Mali	August 6, 1999	August 5, 2002	6.65	21.74
Mauritania	July 21, 1999	July 20, 2002	42.49	18.21
Moldova	December 15, 2000	December 20, 2003	110.88	92.40
Mozambique	June 28, 1999	June 27, 2002	87.20	33.60
Nicaragua	March 18, 1998	March 17, 2002	148.96	33.64
Niger	December 14, 2000	December 21, 2003	59.20	42.28
Rwanda	June 24, 1998	January 31, 2002	71.40	19.04
São Tomé and Príncipe	April 28, 2000	April 28, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2002	107.01	28.54
Sierra Leone	September 26, 2001	September 25, 2004	130.84	84.00
Tajikistan	June 24, 1998	December 24, 2001	100.30	22.02
Tanzania	March, 31, 2000	April 3, 2003	135:00	75.03
Vietnam	April 13, 2001	April 12, 2004	290.00	248.60
Yemen	October 29, 1997	October 28, 2001	264.75	94.75
Zambia	March 25, 1999	March 28, 2003	254.45	199.51
Total			3,513.36	2,075.86
Grand total			57,871.68	30,830.09

Source: "Stand-By, EFF and PRGF Arrangements as of September 30," *IMF Survey*, October 22, 2001, p. 330.

Note: a. Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals owing to rounding.
Data: IMF Treasurer's Department.

the market. As a corollary, critics charge that the IMF imposes a single policy framework, or "adjustment recipe," on all borrowers regardless of specific and unique economic and political conditions characteristic of each member country. This straightjacket of policy prescriptions is said to unfairly target the lowest-income strata in society and contribute to social unrest and political instability. The Fund is also accused of using the country's need for foreign exchange as a means of further liberalizing the country's foreign direct investment regulations. This, in turn, provides large, well-endowed foreign multinational corporations the opportunity to purchase or outcompete local firms, resulting in deeper foreign ownership of the national economy. Finally, the Fund is charged with contributing to the destruction of the environment by encouraging countries to exploit their natural resources to gain much needed foreign exchange.

According to the Fund, the logic behind its policy prescriptions associated with conditional lending is straightforward and sound. At a minimum, most of its critics will agree that it is ideologically consistent. By proposing free-market solutions, it seeks to institute macroeconomic policy changes that will unleash the pent-up productive capability of free capital, product, and labor markets. The IMF believes that this, in turn, will increase domestic production and enhance export competitiveness, generate foreign exchange, and thereby return the country to balance-of-payments equilibrium.

The task of increasing exports, balancing the trade account, and returning the country to equilibrium is the primary objective central to all IMF policy prescriptions. It is to achieve this end that the IMF's conditions and policy prescriptions on the exchange rate, monetary policy, fiscal expenditures, privatization, and the regulation of foreign direct investment and trade are oriented.

While overwhelmingly embracing free-market economics and endorsing market-determined prices, there is one area where the IMF makes a slight exception—in valuing the currency. Given the perceived severity of the country's condition and the IMF's mandate to expeditiously return the country to a balance-of-payments equilibrium, a slightly undervalued currency is prescribed. The effect of this is twofold, and both are desirable from the IMF's perspective. First, it lowers the cost of domestic relative to foreign goods and thereby enhances the price competitiveness of the country's exports. Second, the undervalued currency simultaneously decreases the demand for imported goods by making them more expensive. Both of these effects of an undervalued currency assist the country in earning and keeping foreign exchange.

The IMF also prescribes specific policies regarding traditional fiscal and monetary policy tools. Reduced government spending and a contraction of the money supply are intended to reduce inflation by lessening domestic demand. The Fund argues that combating domestic inflation is a critical task. By increasing the cost of labor and other product inputs, inflation decreases the price competitiveness in the international marketplace of domestically produced goods. The loss of price competitiveness means fewer exports and diminishing foreign exchange.

Reduced government spending also has the desirable effect of lessening the crowding-out effect of excessive government drawing on the capital markets, thus freeing up more capital for the presumably more productive and export-income-earning private sector. Finally, consistent with its free-market ideology, the Fund supports the liberalization of foreign investment regulations and trade restrictions to promote capital inflows and allow market forces to further rationalize the economy.

Whatever the truth regarding the effectiveness of IMF conditional lending and policy prescriptions, concerned nongovernmental organizations and borrowing country elites continue to chafe under the discipline imposed by IMF programs. Well-publicized and well-attended demonstrations now plague the annual meetings of the IMF and other multilateral organizations.

Although it stands firm in its commitment to orthodox economic principles, the Fund has not been impervious to public concerns. During the 1980s, closer collaboration between the IMF and the World Bank permitted the latter to make loans designed, in part, to mitigate some of the adverse social consequences of Fund stabilization programs. Both the IMF and the World Bank have sought to make their lending programs more environmentally sensitive by incorporating environmental impact audits as a component of all lending decisions. Nevertheless, the IMF continues to be the focal point for much dissension in the world community about the desirability of globalization and the benefits of free-market reform.

Special Facilities of the IMF

In the fifty years since its creation, the IMF has periodically created special facilities to provide credit that extends beyond its traditional focus on short-term, balance-of-payments adjustment lending. These facilities vary in terms of the nature or source of the problem they are designed to address and the terms and conditions of the financing they make available. A representative sample of Fund facilities that have provided financial assistance beyond the scope of the IMF's traditional standby arrangments are: the compensatory contingency financing facility (CCFF) (1963), the extended Fund facility (EFF) (1974), and the systemic transformation facility (STF) (1993). Over the years developing countries and now the formerly socialist Soviet republics have made use of this grouping of special facilities.

Beginning operations in 1963, the CCFF was created to provide a member country with resources to help compensate for temporary shortfalls in export earnings and temporary excesses in cereal import costs that arise from events largely beyond the country's control. Financial assistance under the CCFF is provided to cover unpredictable deviations in highly volatile and easily identifiable key variables that directly affect the member's current account, including main export or import prices and international interest rates.

The EFF provides assistance to member countries for longer periods and in larger amounts than are available under credit tranche policies. Financial assistance under the EFF is generally aimed at overcoming balance-of-payments difficulties stemming from structural problems that require a longer period of adjustment. Countries must repay EFF currencies within four-and-a-half to ten years of the drawing. As in the majority of IMF loans, specific conditions and performance criteria are similar to those of standby arrangements.

The CCFF and EFF and their borrowing terms are of particular consequence for the nonindustrial members. First, borrowing through the CCFF does not include conditionality. Second, their presence reflects an important adjustment in the institutional culture of the IMF in accepting the notion that members specializing in primary product exports face special problems inherent in the global marketplace. These problems stem from imperfect supply-side responses to price cues and the extreme volatility and long-term decline of primary product prices relative to manufactures. These facilities legitimize the economic argument that questions the neutrality of market forces and run explicitly counter to free-market doctrine and the assumption of the infallibility of the unfettered marketplace.

Finally, the systemic transformation facility was created in response to the needs of the nations of central Europe, the Baltic countries, Russia, and the other countries of the Commonwealth of Independent States in making the transition from centrally planned economies to market economies. Under the STF, assistance was provided to members experiencing balance-of-payments difficulties as a result of severe disruptions in their traditional arrangements in trade and payments. Member countries experiencing a sharp fall in total export earnings or a permanent increase in import costs during the transition from significant reliance on bilateral trading at non-market prices by bureaucratic agents to multilateral, market-based trade by private agents, qualified for assistance under the STF.

Assistance under the STF was not provided without qualification. To have received assistance under the STF, the Fund had to be satisfied that the country would cooperate in solving its balance-of-payments problems and would continue to reform its policies. When requesting Fund assistance under the STF, the member submitted a written description of the objectives of its economic policies, its macroeconomic policy projections, and the structural, fiscal, monetary, and exchange measures it would implement over the following twelve months. The member was also required not to tighten exchange or trade restrictions or introduce new restrictions or multiple currency practices.

In addition to the financial assistance provided under the STF, the IMF has provided technical expertise to the transitional economies to assist them in establishing the financial and economic architectures viewed as foundational for a market economy to function. IMF staff played a crucial role in creating many of the basic institutions of a capitalist system, such as central banks, fiscal systems, and legal codes. While the STF is no longer operating and providing assistance, it is a testimony to the breadth of purposes to which IMF support has been provided.[2]

Concessional Facilities

The Structural Adjustment Facility (SAF) (1986) and its successor, the Enhanced Structural Adjustment Facility (ESAF) (1987), were created in response to the debt crisis and its impact on developing countries. Through these facilities, numerous low-income countries have accessed concession-

al loans providing longer-term payback periods up to ten years. While these facilities were the cornerstone of IMF concessional aid during the 1980s and most of the 1990s, a renewed effort to address the problems of the most impoverished member countries has resulted in the creation of the Poverty Reduction and Growth Facility. This facility replaced the ESAF in November 1999.

The IMF and the International Debt Crisis. The catalyst behind the IMF's targeting of the poorest member countries was the declining economic conditions in the developing world rooted in the 1980s debt crisis. The international debt crisis that led to the creation of the Structural Adjustment Facilities posed a particular challenge to the IMF and its management of the international monetary and financial system.

The crisis itself was complex in that it involved hundreds of international banks, dozens of borrowing countries, creditor governments, and the IMF. The creditors were the commercial banks of the industrialized countries, and the debtors were the oil-importing countries of the less-developed world. The magnitude of the debt, the degree to which the lending banks were leveraged to the sovereign debtors, and the potentially devastating impact that a single country's default could have on a major bank's balance sheet all contributed to fear of a financial panic and meltdown should default occur. This brought the debt crisis to the attention of creditor governments and the IMF.

The IMF played a pivotal role in the management and ultimate resolution of the international debt crisis. As the crisis broke in 1982—and continuing throughout the multiple renegotiations of sovereign countries' debts that followed—the creditor governments of the industrial world and the international banks consistently made their support for rescheduling and additional lending contingent on first having a standby arrangement in place between the IMF and the debtor country. Negotiations focused on the terms for rescheduling the original short- and medium-term loans to long-term loans and for extending new loans. The new lending agreement would then be negotiated between the private banks and the borrowing country with the IMF acting as intermediary. Such renegotiations frequently stretched over many months and sometimes more than a year. Virtually all renegotiated loan packages were predicated on a standby arrangement in place with the IMF.

A contentious aspect of these renegotiations concerned new loans in the form of fresh funds as compared with new loans in the form of rolling over old debt. Naturally, many banks were hesitant to lend additional money as a part of the restructuring package when the debtor countries were already experiencing difficulty servicing their existing debt. From the perspective of the banks, this was simply "throwing good money after bad." On the other hand, the debtor countries argued that some fresh funds, along with the lengthening of the payback period and the accompanying lowering of annual debt-service payments, were necessary to provide needed liquidity and return the countries to a path of stable, long-term growth.

The IMF stepped in to resolve this standoff, meet country needs for fresh capital, and propel the renegotiations forward. The SAF and the ESAF provided the additional liquidity, allowing the IMF, along with the World Bank, to extend such funds to heavily indebted borrowers and thereby facilitate the process of debt renegotiation. Countries that borrowed under the SAF and the ESAF committed to a set of long-term conditions or structural changes outlined in a policy framework paper (PFP). These structural changes included the typical IMF policies outlined earlier, as well as more long-term structural changes such as privatization, deregulation, and the elimination of discriminatory practices toward foreign investors. It is this partnering of the IMF and the World Bank in offering long-term structural adjustment loans that blurred the two institutions' functions and contributed to criticisms of mission creep. It is also the conditions associated with these new, longer-term loans that gave confidence to the private banking community and led to the successful renegotiating of country loans.

IMF Lending Under the Poverty Reduction and Growth Facility

While the IMF has been providing some form of concessional lending to help the poorest member countries achieve economic vitality, sustainable economic growth, and improved living standards since the late 1970s, the recently created Poverty Reduction and Growth Facility incorporates some innovative elements in lending to the poorest member countries.

Recently, the IMF and the World Bank have responded to calls within the larger international community for special assistance for the twenty-four so-called heavily indebted poor countries (HIPCs). This international chorus for special assistance for the world's most impoverished countries simply recognizes the obvious. Clearly, there is a subset of countries in the world that, whether due to internal strife, poor agricultural conditions, the devastating impact of the AIDS epidemic, or a combination of causes, fundamentally have lacked the ability to achieve the gains needed for lasting poverty reduction. These countries continue to borrow from the international community with little hope under present circumstances for long-term prosperity. Considering that Africa is the continent that has been most lacking in social and economic development, twenty of the twenty-four HIPC countries are located there.

In the final analysis, this initiative will allow impoverished and indebted countries to allocate more of their expenditures as a percentage of GDP on social, health, and education expenditures rather than on debt-service payments. In order to accomplish this, approximately 50 percent of each country's total debt will be relieved, translating to $36 billion in debt relief.

The most important aspect of this initiative is that the IMF is not acting alone. It is a multilateral approach to debt relief involving the development agencies of the advanced industrialized countries and the World Bank. The Paris Club, an organization composed of official creditors, is also participating in this effort.

Particularly unique and new about this form of IMF lending is the explicit focus on poverty reduction. The intent is clearly to ensure that the needs of the poor get addressed first in public policy debates. Also new is the effort to put countries in the driver's seat of their own development. Visions and goals for poverty reduction are to be articulated by the countries themselves, which assists them in owning the strategy and committing fully to its success.

To achieve their goals, participating countries design their own master plan embodied in a Poverty Reduction Strategy Paper (PRSP). This plan makes it easier for the IMF and other lending institutions to provide effective support. Although the countries are at the helm in designing their own PRSPs, debt forgiveness will remain contingent on the country meeting traditional IMF macroeconomic policy conditions.[3] More specifically, eligibility for forgiveness and assistance under the HIPC program requires of the countries certain steps outlined in the four phases of the program:

First phase. To qualify for assistance, the country must adopt adjustment and reform programs supported by the IMF and the World Bank and establish a satisfactory track record in meeting agreed-upon macroeconomic targets. During that time, the country will continue to receive traditional concessional assistance from all the relevant donors and multilateral institutions, as well as debt relief from bilateral creditors (including the Paris Club).

Decision point. At the end of the first phase, a debt sustainability analysis will be carried out to determine the current external debt situation of the country. If the external debt ratio for that country after traditional debt-relief mechanisms is above 150 percent for the net present value of debt to exports, it qualifies for assistance under the poverty reduction initiative. In the special case of very open economies (exports-to-GDP ratio above 30 percent) with a high debt burden in relation to fiscal revenues, despite strong revenue collection (above 15 percent of GDP), the net present value of debt-to-exports target may be set below 150 percent. In such cases, the target is set so that the net present value of debt must exceed 250 percent of fiscal revenues to qualify.

At the decision point, the Executive Boards of the IMF and World Bank will formally decide on a country's eligibility. If the decision is favorable, the international community is committed to provide sufficient assistance by the completion point (see below) for the country to achieve debt sustainability calculated at the decision point. The Fund's and the Bank's delivery of assistance is predicated on assurances of action by other creditors.

Second phase. Once eligible for support under the initiative, the country must establish a further track record of good performance under IMF/World Bank–supported programs. The duration of this second period under the enhanced framework is not time bound but depends on the satisfactory implementation of key structural policy reforms agreed at the decision point, the maintenance of macroeconomic stability, and the adoption and implementation of a poverty reduction strategy developed through a broad-based participatory process. Broad-based participation is required in order to ensure buy-in by the borrowing country, thereby increasing its likely success. The use of "floating" completion points would permit strong performers to reach their completion point earlier. During this second phase, official and commercial creditors are generally expected to reschedule obligations coming due, with a 90 percent reduction in net present value. Both the World Bank and the IMF are expected to provide "interim relief" between the decision and completion points.

Completion point. Remaining assistance will be provided at this point. This will imply the following:

1. For bilateral and commercial creditors: a reduction in the net present value of the stock of debt proportional to their overall exposure to the HIPC. Many bilateral creditors have announced they will also provide debt forgiveness over and above HIPC initiative assistance, particularly on official debt.
2. For multilateral creditors (the IMF, the World Bank, and the other multilateral institutions): a further reduction in the net present value of their claims on the country is expected, sufficient to reduce the country's debt to a sustainable level.[4]

In the post–World War II era there have been numerous calls for debt relief for the most impoverished countries. Debt relief has been an integral element in the demands of the new international economic order dating back to the early 1960s. It has consistently been a central element of economic reform proposals emanating from less-developed-country organizations and the United Nations Conference on Trade and Development (UNCTAD). The puzzling question is why at this particular juncture in history the IMF is aggressively pursuing poverty and debt reduction strategies. There are numerous reasons for the IMF's current focus on poverty reduction; two of the more convincing ones are increasing awareness of poverty reduction and promotion among other players in the international system

such as the Roman Catholic Church (Jubilee 2000 Movement), the activities of international NGOs, and entertainment celebrities of worldwide status; and growing concern among IMF member nations, rich and poor, that increasing income disparity will destabilize political systems and undermine national support for the international capitalist system.

The poverty reduction initiative has already achieved some measurable success in reducing the burden of debt servicing as a portion of the participating country's fiscal expenditures. A declining debt burden enhances the HIPC's ability to increase its expenditures in areas of social and economic development. Table 16.4, incorporating a representative sample of HIPCs, provides a glimpse of the impact debt reduction has had on participating countries' fiscal expenditures.

IMF Services for Member Countries

The IMF provides a number of services for its members in addition to its primary responsibilities of supervising the international monetary system and providing financial support. It operates training courses in Washington, D.C., and Vienna, Austria, and issues a wide variety of publications relating to international monetary affairs.

Training

Since its founding in Washington, D.C., in 1964, the IMF Institute has trained approximately thirteen thousand officials from almost all of its 184 member countries, most of whom are employed in ministries of finance, central banks, and other government financial agencies. In addition to giving participants an understanding of the international monetary system and the role of the IMF within that system, the institute through its training has helped to standardize methods of gathering and presenting monetary, balance-of-payments, and financial statistics. The institute has also provided training in highly technical areas of public finance and central banking. Members have frequently relied on the IMF for assistance in such areas when domestic expertise was lacking, particularly in the 1960s and the 1970s, when for the first time a large number of newly independent nations were establishing central banks, issuing new currencies, and devising tax systems (Driscoll, 1994: 21). Since 1996, the IMF has also established the Internal Economics Program, which is designed to provide its staff economists and special invites with training in updated trends in economics and finance methodology. Not shying away from the digital age, as of 2000, the IMF also established its Distance Learning Center in an effort to find a more cost-effective way to serve its trainees all over the globe in a timely fashion.

Table 16.4 Debt Service for Select Individual HIPCs that Reached Decision Points, by Country, 1998-2005 (In million of US dollars, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005
Bolivia								
Debt service paid	390	250						
Debt service due after enhanced HIPC initiative relief[a]			260	225	238	234	235	266
Debt service/exports (in percent)	29	20	18	14	14	12	11	12
Debt service/ government revenue (in percent)	19	13	14	11	12	11	10	10
Debt service/GDP (in percent)	5	3	3	3	3	2	2	2
Cameroon[b]								
Debt service paid[c]	401	401	312					
Debt service due after enhanced HIPC initiative relief[a]				226	242	291	328	347
Debt service/exports (in percent)	18	15	11	8	8	9	9	9
Debt service/ government revenue (in percent)	28	24	18	12	12	13	13	12
Debt service/GDP (in percent)	4	4	3	2	2	3	3	3
Ethiopia[b]								
Debt service paid [d]	104	91	161					
Debt service due after enhanced HIPC initiative relief[a]				105	74	85	100	100
Debt service/exports (in percent)	11	9	17	10	7	7	8	7
Debt service/government revenue (in percent)	9	8	13	7	7	6	5	5
Debt service/GDP (in percent)	2	1	2	2	1	1	1	1
Nicaragua								
Debt service paid[c]	198	108	126					
Debt service due after enhanced HIPC initiative relief				117	188	153	123	127
Debt service/exports (in percent)	24	13	13	11	17	12	9	9
Debt service/ government revenue (in percent)	37	19	20	16	26	21	13	12
Debt service/GDP (in percent)	9	5	6	5	7	5	4	4

Sources: HIPC country documents; World Bank and IMF staff estimates; "The Impact of Debt Reduction Under the HIPC Initiative on External Debt Service and Social Expenditures," http://www.imf.org/external/np/hipc/2001/impact/update/111601.htm [accessed March 6, 2002].

Notes: a. Debt service due after the full use of traditional debt-relief mechanism and assistance under the enhanced HIPC initiative.

b. On fiscal year basis (i.e., 2000 column shows FY 2000/01).

c. The debt-service figures for 2000 largely reflect pre-HIPC relief debt service because these countries did not reach their decision point until late in 2000. Thus the full impact of relief for them will not be felt until 2001 and thereafter.

d. Debt service for 2000 is pre-HIPC, as decision point was reached in 2001.

IMF Publications

The IMF is an important conduit of data on members' fiscal, monetary, and external debt positions. Since its early years, the IMF has issued statistical publications, such as *International Financial Statistics,* that keep members informed of the financial position of other members and provide an unmatched source of statistical information for the financial community, universities, research organizations, and the media. Other IMF publications include the semiannual *World Economic Outlook;* occasional papers on longer-term issues of finance and trade; economic reviews of countries; the *IMF Survey,* a biweekly publication featuring articles on international finance and national economies; a quarterly academic journal entitled *Staff Papers;* the joint IMF–World Bank quarterly *Finance and Development;* and a number of books on the international monetary system. Although very technical in nature, the Fund also publishes a report prepared by each member nation entitled, *Country's Policy Intention Documents,* which describe a member country's "policy intentions in respect of use of Fund resources or staff-monitored programs."[5] Additionally, and relevant to the issue of HIPCs, the IMF has recently published poverty reduction strategy papers of each member country involved in this initiative.

Conclusion

The IMF's relationship to member countries has changed dramatically since 1947. Its main purpose—serving as a lender of last resort in containing currency value fluctuations within the fixed but flexible peg-and-band system—evaporated with the breakdown of that system in 1971. Under the new, flexible exchange rate system, the IMF has the responsibility to monitor country compliance with the rules of the managed float system and limit national use of competitive devaluations for trade purposes. As this chapter has outlined, the Fund's responsibilities have also broadened in response to international crises member countries' needs for additional liquidity.

In a further expansion of the Fund's influence, since 1982 the IMF has participated in G7, now G8 meetings, at which the managing director and staff members brief the G8 regarding the short- and medium-term outlooks for the global economy. The IMF has worked with the G8 in developing a set of indicators for possible coordination of macroeconomic policy.

Simultaneously, the Fund's involvement in and influence on less-developed countries have increased as many of these countries have become increasingly dependent on Fund assistance in managing their heavy debt and frequent balance-of-payments disequlibria. This is particularly true in the case of the smaller countries with weak economies and very few exports. In such cases, the Fund has become a major policy influence and, together with the World Bank, oversees the developmental strategies and trajectories of dozens of states. The HIPC initiative, as well as recent IMF proposals on creating a national bankruptcy plan, are crucial steps toward helping countries resolve unrelenting long-term debt burdens and represent the latest of the IMF's major initiatives.

Notes

1. "IMF's Financial Assistance," http://www.imf.org/external/np/exr/facts/glance.htm [Accessed March 10, 2002].
2. Ibid.
3. "Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative, a Fact Sheet," http://www.imf.org/external/np/exr/facts/hipc.htm [accessed March 5, 2002].
4. Ibid.
5. "IMF Technical Assistance—A Fact Sheet," http://www.imf.org/external/np/exr/facts/tech.htm [accessed March 11, 2002].

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