

# **REPORT ON IMF REFORMS**

Report to Congress  
in accordance with Sections 610 (a) and 613 (a) of the  
Foreign Operations, Export Financing and Related Programs  
Appropriations Act, 1999

U.S. Department of the Treasury  
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## *Introduction*

This report has been prepared pursuant to Sections 610 and 613 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999. Section 613 provides that “[n]ot later than October 1 of each year, the Secretary of the Treasury shall submit to the Committee on Banking and Financial Services of the House of Representatives and the Committee on Foreign Relations of the Senate a written report on the progress (if any) made by the United States Executive Director at the International Monetary Fund in influencing the International Monetary Fund to adopt the policies and reform its internal procedures in the manner described” in section 610. Section 610 covers a broad range of issues related to, for example, transparency in IMF operations, social policies, core labor standards, trade liberalization, the environment, military spending, exchange rate stability, reforms to combat corruption, and others.

Since the passage of the above legislation, the Treasury and the United States Executive Director (USED) at the IMF have been working vigorously to build support in the Executive Board for the important objectives set out in the IMF legislation. We are still at an early stage of implementing some of these reforms. The process of building an international consensus around the reform objectives, and translating this into action at the IMF, will inevitably take time. However, as the following report indicates in detail, there has been some significant progress in a number of areas. On certain issues, an international consensus to move forward exists, and we have worked hard to make best use of it. For example, in October 1998, the Executive Directors of the G-7 nations sent a letter to the Managing Director of the IMF to express their unified support for a number of reforms to IMF programs and internal practices, including additions to loan conditionality and the need for greater transparency and accountability at the IMF. To provide evidence of progress, this report notes various types of indicators. For example, progress on increasing transparency can be seen in the number of IMF program-related documents released to the public. Progress in promoting economic reform objectives can be seen, in part, in the reform undertakings that countries include in the Letter of Intent and other program-related documents, and actual reforms implemented under IMF programs. Such progress is supported by the vigorous use of the voice and vote of the USED at the IMF. Accordingly, this report draws substantially on specific examples of the efforts of the USED to promote policy objectives, and indicators that such efforts are bearing fruit.

On many issues, however, there is still more to be done. In order that these issues figure prominently in the IMF’s agenda, and to make our objectives clear to a broad audience, the Treasury has emphasized in major policy statements and speeches the importance of moving forward on a broad range of IMF reforms.

The Administration launched in December 1999 a number of new initiatives to reform the IMF. The steps proposed reflect lessons learned in recent crises and the ongoing dialogue with Congress and other interested parties in academia, policy organizations, and civil society.

Secretary Summers has focused this initiative on six critical areas:

- Promoting the flow of information from governments to markets and investors. The IMF needs to shift from a focus on collecting and sharing information within the club of nations to promoting the collection and dissemination of information for markets and investors.
- Attention to financial vulnerability as well as macro-economic fundamentals. The IMF should promote a set of quantitative indicators of liquidity and balance sheet risks, and highlight more clearly the risks of unsustainable exchange rate regimes.
- More selective financing role that is focused on emergency situations. The IMF's lending facilities should be streamlined, and its lending more selective, with shorter maturities and perhaps higher rates.
- Greater emphasis on catalyzing market-based solutions, so that IMF lending bridges to and from private sector lending.
- Tighter focus on promoting poverty reduction and growth in the poorest countries in close collaboration with the World Bank.
- Modernization of the IMF as an institution, including increased transparency of IMF operations, and ongoing dialogue with civil society organizations.

These objectives build upon the agenda put forward by the United States at the September 1999 Annual Meetings. On September 26, 1999, in his statement to the IMF's Interim Committee, Secretary Summers had laid out an ambitious agenda for the IMF, noting:

“A changed IMF is needed for the changed world that we now have. We have made a good start in many areas, but much more remains to be done. As we look to the future we need to redouble our efforts to find better approaches if not answers to fundamental questions.

- How do we strengthen the international financial system against crisis and develop better mechanisms to deal with crisis when it occurs?
- How can we help ensure that international assistance in all its forms -- from debt relief, to balance of payments support, to technical assistance -- is used to its greatest effect to promote sustainable, broad-based growth that benefits the poor?
- How do we balance concerns about intrusiveness in national affairs and a desire to promote national ownership of reform programs with a desire to see governments take bolder steps to, for example, build stronger social safety nets, implement core labor standards, empower civil society groups, reduce

the role of government in the economy, and address critical issues related to governance, corruption and crony capitalism?

- How do we promote genuine collaboration among international institutions on issues of common concern without compromising their ability to deliver in areas where they have a comparative advantage?
- What must we do to strengthen the fight against corruption and build better safeguards on the use of international public funding to avoid its misuse or diversion?”

A strong and effective IMF, working in concert with other institutions, will be essential to address these questions. Going forward, as Secretary Summers underlined in his Interim Committee statement, the IMF will, in particular, need to:

- *Push forward with steps underway to increase transparency.*
- *Reinforce incentives to sustain good performance.*
- *Elevate the importance of growth and poverty reduction among the IMF’s core objectives.*
- *Give greater attention in IMF program design to social sector, labor and environmental concerns.*
- *Give more explicit consideration to problems of governance and corruption in all its country programs, while strengthening safeguards on the use of resources provided by the IMF. This includes:*
  - *Systematic use of central auditing requirements as a routine safeguard in IMF programs.*
  - *Broader consideration of IMF program requirements and other policies that would enhance the recipient’s internal safeguards against the misuse of official funds.*
  - *Strengthening the IMF’s capacity to deter and respond to misuse of its funds, including in post-program cases where disbursements have been completed.*

In addition to intensifying our efforts to effect IMF reforms by seeking to build the necessary international consensus, Treasury has taken a number of steps to strengthen the internal process by which the United States promotes and monitors such reforms. In February of 1999, Treasury created an internal task force to coordinate timely input into IMF discussions and to monitor progress. This group identifies upcoming opportunities to advance our policy objectives, especially with respect to new programs, program reviews, Article IV missions and

reviews, and policy discussions. The task force meets bi-weekly at the staff level and as needed at the policy level. Participants include specialists both in particular countries/regions and issue areas (such as labor and the environment).

The task force helps to coordinate Treasury views, as well as input from throughout the Administration on steps to take forward the reform agenda in particular country cases. These are then transmitted to the office of the U.S. Executive Director (USED) at the IMF. The USED, in turn, uses our “voice and vote” to advance our objectives. Using our voice and vote is in some respects the most important aspect of our efforts. Well before a program or surveillance document comes to the Executive Board for discussion, the office of the USED holds informal discussions with IMF staff and other members of the Executive Board to help improve prospects that our views will be reflected.

Treasury has also increased its resources devoted to the effort of promoting IMF reform, in line with the objectives of the legislation. In particular, Treasury has hired new staff with expertise in areas highlighted in U.S. legislation, such as labor, the environment, and poverty reduction. These officials work closely with Treasury country economists, contributing to reviews of IMF country programs, Article IV consultations, and policy discussions.

Treasury is also working more closely with other U.S. government agencies, such as the Department of Labor, the Environmental Protection Agency, the State Department, and the Office of the U.S. Trade Representative. These agencies provide important expertise and perspectives on issues such as trade liberalization, corruption, core labor standards, and environmental protection.

### ***Legislative Provisions***

As noted above, this report covers progress on implementing the policies and reform objectives set out in Section 610 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999. Specifically, Section 610 provides that:

*The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to use aggressively the voice and vote of the Executive Director to do the following:*

- (1) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in structuring programs and assistance so as to promote policies and actions that will contribute to exchange rate stability and avoid competitive devaluations that will further destabilize the international financial and trade systems.*
- (2) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through –*
  - (A) Establishing an independent monetary authority, with full power to conduct monetary policy, that provides for a non-inflationary domestic currency that is fully convertible in foreign exchange markets;*

- (B) *Opening domestic markets to fair and open internal competition among domestic enterprises by eliminating inappropriate favoritism for small or large businesses, eliminating elite monopolies, creating and effectively implementing anti-trust and anti-monopoly laws to protect free competition, and establishing fair and accessible legal procedures for dispute settlement among domestic enterprises;*
  - (C) *Privatizing industry in a fair and equitable manner that provides economic opportunities to a broad spectrum of the population, eliminating government and elite monopolies, closing loss-making enterprises, and reducing government control over the factors of production;*
  - (D) *Economic deregulation by eliminating inefficient and overly burdensome regulations and strengthening the legal framework supporting private contract and intellectual property rights;*
  - (E) *Establishing or strengthening key elements of a social safety net to cushion the effects on workers of unemployment and dislocation; and*
  - (F) *Encouraging the opening of markets for agricultural commodities and products by requiring recipient countries to make efforts to reduce trade barriers.*
- (3) *Vigorously promote policies to increase the effectiveness of the International Monetary Fund, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), in strengthening financial systems in developing countries, and encouraging the adoption of sound banking principles and practices, including the development of laws and regulations that will help to ensure that domestic financial institutions meet strong standards regarding capital reserves, regulatory oversight, and transparency.*
- (4) *Vigorously promote policies to increase the effectiveness of the International Monetary Fund, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), in facilitating the development and implementation of internationally acceptable domestic bankruptcy laws and regulations in developing countries, including the provision of technical assistance as appropriate.*
- (5) *Vigorously promote policies that aim at appropriate burden-sharing by the private sector so that investors and creditors bear more fully the consequences of their decisions, and accordingly advocate policies which include –*
- (A) *Strengthening crisis prevention and early warning signals through improved and more effective surveillance of the national economic policies and financial market development of countries (including monitoring of the structure and volume of capital flows to identify problematic imbalances in the inflow of short and medium term investment capital, potentially destabilizing inflows of offshore lending and foreign investment, or problems with the maturity profiles of capital to provide warnings of imminent economic instability), and fuller disclosure of such information to market participants;*
  - (B) *Accelerating work on strengthening financial systems in emerging market economies so as to reduce the risk of financial crises;*

- (C) *Consideration of provisions in debt contracts that would foster dialogue and consultation between a sovereign debtor and its private creditors, and among those creditors;*
  - (D) *Consideration of extending the scope of the International Monetary Fund’s policy on lending to members in arrears and of other policies so as to foster the dialogue and consultation referred to in subparagraph (C);*
  - (E) *Intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises;*
  - (F) *Consideration of establishing ad hoc or formal linkages between the provision of official financing to countries experiencing a financial crisis and the willingness of market participants to meaningfully participate in any stabilization effort led by the International Monetary Fund;*
  - (G) *Using the International Monetary Fund to facilitate discussions between debtors and private creditors to help ensure that financial difficulties are resolved without inappropriate resort to public resources; and*
  - (H) *The International Monetary Fund accompanying the provision of funding to countries experiencing a financial crisis resulting from imprudent borrowing with efforts to achieve a significant contribution by the private creditors, investors, and banks which had extended such credits.*
- (6) *Vigorously promote policies that would make the International Monetary Fund a more effective mechanism, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), for promoting good governance principles within recipient countries by fostering structural reforms, including procurement reform, that reduce opportunities for corruption and bribery, and drug-related money laundering.*
- (7) *Vigorously promote the design of International Monetary Fund programs and assistance so that governments that draw on the International Monetary Fund channel public funds away from unproductive purposes, including large “show case” projects and excessive military spending, and toward investment in human and physical capital as well as social programs to protect the neediest and promote social equity.*
- (8) *Work with the International Monetary Fund to foster economic prescriptions that are appropriate to the individual economic circumstances of each recipient country, recognizing that inappropriate stabilization programs may only serve to further destabilize the economy and create unnecessary economic, social, and political dislocation.*
- (9) *Structure International Monetary Fund programs and assistance so that the maintenance and improvement of core labor standards are routinely incorporated as an integral goal in the policy dialogue with recipient countries, so that –*
- (A) *Recipient governments commit to affording workers the right to exercise internationally recognized core worker rights, including the right of free association and collective bargaining through unions of their own choosing;*

- (B) Measures designed to facilitate labor market flexibility are consistent with such core worker rights; and*
  - (C) The staff of the International Monetary Fund surveys the labor market policies and practices of recipient countries and recommends policy initiatives that will help to ensure the maintenance or improvement of core labor standards.*
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- (10) Vigorously promote International Monetary Fund programs and assistance that are structured to the maximum extent feasible to discourage practices which may promote ethnic or social strife in a recipient country.*
  - (11) Vigorously promote recognition by the International Monetary Fund that macroeconomic developments and policies can affect and be affected by environmental conditions and policies, and urge the International Monetary Fund to encourage member countries to pursue macroeconomic stability while promoting environmental protection.*
  - (12) Facilitate greater International Monetary Fund transparency, including by enhancing accessibility of the International Monetary Fund and its staff, foster a more open release policy toward working papers, past evaluations, and other International Monetary Fund documents, seeking to publish all Letters of Intent to the International Monetary Fund and Policy Framework Papers, and establishing a more open release policy regarding Article IV consultations.*
  - (13) Facilitate greater International Monetary Fund accountability and enhance International Monetary Fund self-evaluation by vigorously promoting review of the effectiveness of the Office of Internal Audit and Inspection and the Executive Board's external evaluation pilot program and, if necessary, the establishment of an operations evaluation department modeled on the experience of the International Bank for Reconstruction and Development, guided by such key principles as usefulness, credibility, transparency, and independence.*
  - (14) Vigorously promote coordination with the International Bank for Reconstruction and Development and other international financial institutions (as defined in Section 1701 (c)(2)) in promoting structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending, especially in the world's poorest, heavily indebted countries.*



## ***Report on Specific Provisions***

Below, each part of Section 610 is considered in turn.

*(1) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in structuring programs and assistance so as to promote policies and actions that will contribute to exchange rate stability and avoid competitive devaluations that will further destabilize the international financial and trade systems.*

The guiding concern of the IMF in discussions with country officials is whether the exchange rate regime is stable and sustainable. The IMF's Articles of Agreement allow each country to choose its own exchange rate regime, but the IMF advises countries on whether their regimes appear to be sustainable, and on what supporting macroeconomic and financial sector policies are necessary to support the regime. If the IMF believes that a country's exchange rate regime or the prevailing level of its exchange rate is unsustainable or inconsistent with the country's objectives and policies, the IMF warns the country's authorities and recommends changes. In some exceptional circumstances, the IMF may require changes in the exchange rate regime in the context of a program that it is supporting.

The United States, through the USED, supports the view that the chosen exchange rate regime must be sustainable, credible, and supported by consistent macroeconomic policies and robust financial systems. Recent crises have demonstrated that a fixed – but not firmly institutionalized or credible – exchange rate regime holds considerable risks for emerging market economies. Such a regime increases vulnerability in a number of ways: it can encourage excessive foreign currency borrowing by both public and private sectors; it can lead governments to borrow even more to defend currencies under pressure; and – when trouble strikes – the breaking of the exchange rate promise exacerbates the loss of investor confidence and withdrawal of capital that followed.

As part of the ongoing review of ways to strengthen the international financial architecture, the United States and the other G-7 nations have agreed that the IMF, in the context of surveillance, should enhance the attention it gives to exchange rate sustainability and inform the process with the results of the best research and analysis. In particular, the IMF should focus on the need for countries with fixed but adjustable pegs to develop exit strategies – either towards floating the rate or making more credible the commitment to fixity, for example by institutionalizing the fixed rate commitment. Furthermore, the United States believes – and the rest of the G-7 has agreed – that in the context of its programs, the IMF should not provide large-scale official financing for a country intervening heavily to support a particular exchange rate level, except where that level is judged sustainable and certain conditions have been met, such as where the exchange rate policy is backed by a strong and credible commitment with supporting arrangements and by consistent domestic policies. The USED advocated this position in the November 1999 Board discussion of exchange rates.

Competitive devaluations are never the basis for stability or sustainable growth. Because national authorities often make decisions concerning exchange rates without external consultation, the IMF cannot necessarily prevent poor exchange rate decisions. However, the

policy of the IMF, which the United States supports, is that countries should pursue economic growth objectives through policies supportive of economic liberalization and price stability, rather than through short-term competitive devaluations.

In considering country programs, the USED has promoted stabilization of exchange rates at sustainable levels supported by appropriate monetary and economic policies. During the Asian financial crisis, the USED advocated IMF programs for South Korea and Thailand that required tight monetary policies designed to arrest the fall of their currencies that followed the collapse of their fixed but adjustable exchange rate regimes. For example, during a review of the Thai Stand-By Arrangement, the USED stated that the primary objective of monetary policy in the face of the collapse of market confidence should be to stabilize and strengthen the baht, and recognized that the Thai government and Fund staff had concurred with this view. More recently, the USED has, on a number of occasions, such as the program reviews for Armenia and Tajikistan, urged countries to adopt the monetary policies necessary to support stability of the exchange rate. During a Board discussion of Egypt's policies in January of 1999, the USED urged the government to adopt more flexible monetary policies in the context of concern over their fixed exchange rate regime.

*(2) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through –*

The IMF, in its advice to member countries, has increasingly supported market-oriented reform and trade liberalization, as an important complement to the macroeconomic policies essential to growth. More recently, with active encouragement from the United States and other member governments, as well as its own review of experience in the Asia crisis, the IMF has increased its efforts and cooperation with the World Bank to promote better governance (see Section 6) and social stability (see Section 7) through greater transparency and increased spending on programs for the poor. The recent Board review of social issues and policies in IMF-supported programs reveals the increased emphasis that the IMF is placing on working with the Bank to address these issues.

In its September 26 Communiqué, the Interim Committee reiterated its support for open and competitive markets as a key component of efforts to sustain growth and stability in the international economy. The Interim Committee called on the IMF, World Bank, and WTO to work together more effectively in this area, recognizing that “coordinated programs of support for developing countries, including targeted technical assistance and policy advice, will support them in meeting WTO commitments and implementing current agreements.”

*(A) Establishing an independent monetary authority, with full power to conduct monetary policy, that provides for a non-inflationary domestic currency that is fully convertible in foreign exchange markets;*

The United States has vigorously promoted the creation of independent monetary authorities that are free from political pressure. Such independence is critical to price and exchange rate stability and consistent with basic principles of market-oriented economies. It is

also essential to good governance. The establishment of an independent monetary authority helps to end directed credits, preferential lending, and inflationary quasi-fiscal financing, all of which not merely distort markets, but also create a political climate that is not conducive to transparency and accountability. For these reasons, the USED has voiced its concern about lack of central bank independence, such as during the Article IV review – annual review of economic and financial policies performed by IMF staff – in cases including Burundi and Tajikistan (Article IV and program reviews). During Israel’s Article IV review in March 1999, the USED also stated U.S. concerns about the possible weakening of the central bank’s independence.

*(B) Opening domestic markets to fair and open internal competition among domestic enterprises by eliminating inappropriate favoritism for small or large businesses, eliminating elite monopolies, creating and effectively implementing anti-trust and anti-monopoly laws to protect free competition, and establishing fair and accessible legal procedures for dispute settlement among domestic enterprises;*

The United States has pressed within the IMF for it to advocate internal competition and equal treatment under the law for domestic enterprises. The elimination of preferential treatment and monopolistic practices will enhance efficiency and economic growth. Pro-competition practices also promote greater political transparency and freedom by reducing government control over jobs and economic security. We have had significant success in advancing reforms on this front in the IMF.

To promote greater internal competition, the United States has focused in particular on ending directed lending, and the USED has worked with some success toward this end. Reflecting advice from the IMF, the South Korean authorities committed to terminate their practice of directing commercial bank lending decisions. This commitment was formally incorporated into the provisions of the Stand-By Arrangement by setting structural performance criteria intended to advance reform of the banking sector.

*(C) Privatizing industry in a fair and equitable manner that provides economic opportunities to a broad spectrum of the population, eliminating government and elite monopolies, closing loss-making enterprises, and reducing government control over the factors of production;*

Privatization figures prominently in many IMF programs as part of efforts to help countries restore fiscal stability and expand the scope for private-sector led growth. The United States strongly supports in the IFIs the use of competitive and transparent means of privatization to support the sale of state-owned enterprises in order to free up the public sector’s resources for social programs and to improve overall economic efficiency and consumer welfare.

- In Indonesia, the IMF program, in conjunction with the World Bank lending, includes a major privatization effort aimed at divesting the vast bulk of state enterprises over the next decade. Between 1999-2001, the privatization effort will focus on hotels, trading, construction, mining and civil engineering firms, and fertilizer producers. As part of the program to strengthen the financial sector, four state-owned banks are being merged with a view to privatization in this period.

*(D) Economic deregulation by eliminating inefficient and overly burdensome regulations and strengthening the legal framework supporting private contract and intellectual property rights;*

The United States views limited but effective regulation as essential to a sound economy, and the USED actively reflects this view in Board discussions and other interactions within the IMF. Excessive regulation distorts markets and may contribute to unemployment. At the same time, research and practice indicate that a country must enforce contracts and protect property rights in order to draw investment and generate commercial activity.

*(E) Establishing or strengthening key elements of a social safety net to cushion the effects on workers of unemployment and dislocation; and*

At the urging of the United States, the IMF is taking steps to improve its policies to promote social stability. Increasingly, and especially in the context of the Asian financial crisis, the IMF has recognized the importance of establishing or strengthening social safety nets as a means of reducing the social cost of rapid structural adjustment. Cooperation with the World Bank on this issue has been significantly enhanced.

The USED has pressed for greater attention in the IMF to social safety net issues, including unemployment insurance schemes, education and retraining, and government expenditure on infrastructure and other job-creating programs.

- In South Korea and Thailand, the USED has vigorously promoted the expansion or creation of unemployment insurance plans and programs to educate or retrain displaced workers.
- In Colombia's new program, the IMF explicitly accommodated within fiscal targets a new annual \$300 million social safety net, funded by the World Bank and the Inter-American Development Bank.
- The USED has placed strong emphasis on the need for Turkey to undertake fundamental reform of its social security system. The country subsequently made efforts to secure parliamentary approval in August 1999 for significant reforms aimed at easing the fiscal burden imposed by the system and putting it on a sound footing over the medium and long term. These reforms were a pre-condition for the IMF program.
- In Ecuador's new program, the liberalization of fuel prices will be carried out in a manner intended to minimize the impact on the poorest. Similarly, social spending will be expanded in the fiscal consolidation program to lessen the impact of the adjustment program on the poor.
- In the 1999 Benin Article IV discussion and review of performance under ESAF, the USED highlighted how much more work remains to be done to improve demographic and social indicators, which remain weak, even relative to the Sub-Saharan African

average. Noting that the execution of planned social sector expenditure was not encouraging, the USED asked for a more detailed report on the measures being taken to increase budgeted expenditure on health and education, as well as to help ensure that the amounts budgeted are actually spent.

*(F) Encouraging the opening of markets for agricultural commodities and products by requiring recipient countries to make efforts to reduce trade barriers.*

Trade liberalization is often a key component of IMF arrangements, typically reflecting advice on liberalization across the board, rather than just in one sector. Some examples of recent trade measures in IMF-supported programs include:

- Pursuant to its Fund program, Indonesia has abolished import monopolies for soybeans and wheat; agreed to phase out all quantitative import restrictions and other non-tariff barriers; dissolved all cartels for plywood, cement and paper; removed restrictions on foreign investment in wholesale and resale trade; and allowed foreign banks to buy domestic banks. In its January 2000 Letter of Intent, Indonesia indicated its intention to further trade liberalization measures during the course of its new IMF program, notably the elimination of all existing non-tariff barriers (except those maintained for health and safety reasons).
- Countries participating in the West African Economic and Monetary Union (WAEMU) and supported by IMF concessional lending programs are taking steps to simplify and liberalize their trade regimes. In its Letter of Intent (April 14, 1999) Ghana indicated that it will reduce its top tariff rate to 20 percent, curtail exemptions from import duties, and reduce its average tariff rate over the next three years to less than 10 percent. A special tax of 17.5 percent on certain imports was abolished in March of 1999.
- In Nigeria's 1999 Letter of Intent, the government stated that the ban on vegetable oils has been eliminated, and the ban on maize will be eliminated in 2000. In addition, the government said that it was considering a proposal to remove import prohibitions on other items, including millet, wheat flour, and sorghum.
- In July, Zambia eliminated its import ban on wheat flour. More generally, in its Letter of Intent (March 1999), the government committed itself to reducing the weighted average tariff to 10 percent, and cutting the maximum tariff from 25 percent to 20 percent by 2001. Currently, the simple average tariff is roughly 13.6 percent.
- Guyana, in conjunction with the recent review of its concessional lending program (May 1999) and its participation in the debt relief initiative for Heavily Indebted Poor Countries (HIPC), is implementing an overall reduction in its tariff regime.
- As part of its IMF program, South Korea has undertaken the following measures: substantial reduction in the number of items subject to adjustment tariffs; elimination

of trade-related subsidies; simplification of import certification procedures and harmonization with WTO standards.

- When Brazil was seeking a financial stabilization agreement, the USED stressed the need for Brazil to meet international trade obligations. Brazil subsequently included in its Letter of Intent (November 13, 1998) a commitment not to impose trade restrictions that would be inconsistent with its WTO obligations or, within the context of an IMF program, restrictions based on balance of payments reasons.
- Following the adoption of an IMF program in April, Jordan reduced its maximum tariff rate from 40 percent to 35 percent, and will reduce it by a further 5 percent in the first quarter of 2000.
- In its December 1999 Letter of Intent (LOI), the government of Colombia stated its intention to eliminate the subsidy component of its export credit certificates according to the schedule agreed with the WTO.
- The government of Uganda, in its November 1999 LOI, indicated its intention to continue the liberalization of its trade regime. Specifically, Uganda will reduce the temporary additional duties by one-third on beer and soft drinks by March 2000, and on cigarettes and tobacco products by one-half by June 2000. The government will eliminate the surcharges on beer and soft drinks by March 2001, and on cigarettes and other tobacco products by June 2001.

*(3) Vigorously promote policies to increase the effectiveness of the International Monetary Fund, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), in strengthening financial systems in developing countries, and encouraging the adoption of sound banking principles and practices, including the development of laws and regulations that will help to ensure that domestic financial institutions meet strong standards regarding capital reserves, regulatory oversight, and transparency.*

The IMF, at the urging of the USED, has substantially increased its expertise and activism in promoting strong financial systems and sound banking principles, especially in emerging markets, in tandem with other international organizations.

The IMF has undertaken research on financial sector supervision in its annual *International Capital Markets* report. Its publication, *Toward a Framework for Financial Stability*, was an important contribution to global efforts to strengthen financial systems, and helped frame discussions in the G-22 and G-33.

The IMF participates with the World Bank and international regulatory bodies in the joint Financial Sector Liaison Committee, created in the fall of 1998 at our encouragement, to promote cooperation in program design and implementation. In addition to their collaboration in this committee, the IMF and World Bank also participate in the Financial Stability Forum, established in early 1999.

The IMF worked in close coordination with the Basle Committee on Banking Supervision as it developed the *Core Principles for Effective Banking Supervision*. Through the Liaison Committee, the IMF is actively engaged in developing guidance for assessing the implementation of the Core Principles.

The IMF is also helping to disseminate the Core Principles through its surveillance work with developed and developing countries. The IMF is enhancing its Article IV surveillance process in the financial sector area, and will increasingly analyze banking sector health in key countries on the basis of analyses by its monetary and financial experts. In many instances, World Bank and regulatory and supervisory staff seconded from member countries will join the IMF in financial sector monitoring and assessments. Finally, the IMF is encouraging countries to implement the Core Principles in the context of its financial sector programs.

The IMF and World Bank are also working more closely in crisis countries in restructuring financial systems. Key elements of the programs in South Korea and Thailand, for example, included a comprehensive strategy to restructure and recapitalize the financial sectors, and strengthen supervision, improve disclosure and transparency, and more fully develop a credit culture.

Under the joint IMF-World Bank Financial Sector Assessment Program, a pilot program launched in 1999, both institutions are jointly carrying out in-depth assessments of selected countries' financial systems with a view to identifying financial system strengths and vulnerabilities. The IMF uses its findings to produce a Financial System Stability Assessment (FSSA), in the context of its surveillance. Thus far, four countries – Canada, Colombia, Lebanon, and South Africa – have undergone these assessments. The IMF is planning FSSAs for eight additional countries.

A by-product of the FSSAs is an assessment of countries' implementation of various financial sector standards. The IMF, with the cooperation of the World Bank, is developing a systematic process for assessing countries' adherence to internationally-accepted standards in data dissemination, fiscal transparency, monetary and financial policy transparency, banking supervision, and other financial and economic policy areas. The results of such assessments are reflected in Reports on the Observance of Standards and Codes (ROSCs). The United States is strongly encouraging the publication of these reports. As of September 30, 1999, the IMF had completed ROSCs in at least one area for thirteen countries, ten of which agreed to publication. There is currently underway a third phase of ROSCs, spanning from October 1999 through September 2000, in which 24 countries are participating. Information on ROSCs is available on the IMF website.

In advance of the Annual Meetings in September 1999, the IMF and the Bank prepared a joint report on their progress together on financial sector issues. Through the USED, as well as through the G-7 and other fora, we will continue to press the IMF to devote greater attention to sound banking principles in its surveillance, program and technical assistance work, including by reallocating staff resources to increase staff with supervisory/prudential expertise.

The following cases represent a few indicators that IMF efforts to encourage financial sector reforms are bearing fruit:

- Korea's November 1999 LOI indicates that the country is continuing to take numerous measures to strengthen its financial system. Specific measures include requiring banks to meet the minimum capital ratio of 8 percent, bringing prudential regulation and supervision closer to international best practices, improving accounting, auditing, and disclosure standards, transitioning to a limited deposit insurance system, divesting government shares in commercial banks, and taking other steps seeking to ensure that all future domestic commercial lending is done on an "arm's length" basis.
- In its December 1999 LOI, the government of Colombia stated its intention to divest fully its financial interests in all remaining public banks, excluding Banco Agrario, by December 31, 2001.
- In December, to support its request for a stand-by arrangement, Turkey passed several amendments to its *Banks Act* and revised regulations as part of a program to strengthen Turkey's financial system. The reforms focused, among other areas, on insolvency proceedings and steps to increase transparency and the independence of regulators.
- Albania's December 1999 LOI details some of the measures taken to bring the country's financial system up to international standards. Among other things, the government of Albania has adopted a legal framework and a set of core prudential regulations broadly in line with the Basel Core Principles. Further, the government is strengthening licensing requirements for new banks and capital adequacy requirements.
- Financial and corporate restructuring is central to Indonesia's agreed program with the IMF. The strategic objectives of the financial restructuring program are: recapitalizing all banks to achieve 8 percent capital adequacy ratios by December 31, 2000; minimizing the public cost of restructuring; enhancing supervision and governance in the financial sector; and developing debt and equity markets to reduce reliance on bank finance.

*(4) Vigorously promote policies to increase the effectiveness of the International Monetary Fund, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), in facilitating the development and implementation of internationally acceptable domestic bankruptcy laws and regulations in developing countries, including the provision of technical assistance as appropriate.*

The USED has worked within the IMF to promote the development and implementation of insolvency regimes. This will be a long-term process, however there is some progress to report.



First, the IMF has sought to promote effective, non-discriminatory bankruptcy procedures. Tangible signs of progress are apparent in a number of countries, including South Korea, Thailand, and Indonesia. The IMF has also actively supported out-of-court restructuring programs in all three countries to address systemic insolvency.

- For example, in the case of South Korea, the bankruptcy laws were reformed in early 1998. The new law includes the establishment of economic criteria for courts to assess a company's economic viability; the setting of limits on court decisions and rehabilitation processes; and the establishment of a special administrative body to support the courts in its duties, such as evaluation of a company's financial situation and viability, nomination of a receiver, and approval of rehabilitation plans. The number of filings under insolvency laws is expected to increase, and the World Bank, under its second Structural Adjustment Loan, sought the establishment of specialized courts help handle this increase. The effectiveness of the new laws and institutions will become clearer as more companies seek protection. So far, much of the corporate restructuring effort has centered on the voluntary workouts envisioned in the Corporate Restructuring Agreement (CRA).

Second, the IMF, in cooperation with other IFIs, has placed new priority on efforts to strengthen national insolvency regimes, which provide the basis for the efficient resolution of the debt problems of private entities. This is critical for two reasons: the failure to resolve debt problems expeditiously can itself be a barrier to growth; and the efficient resolution of the debt problems of private entities is critical in preventing private debt problems from accumulating and ultimately spilling over to the sovereign. The efforts of the IFIs have built upon the key principles of effective bankruptcy and debtor-creditor regimes identified last year by the G-22 Working Group on International Financial Crises.

The IMF is supporting countries' efforts to improve transparency, predictability, and equity in insolvency regimes. It has supported adoption of the Model Law on Cross-Border Insolvency developed by the UN (the UNCITRAL Model Law) to facilitate the resolution of increasingly complex cases of insolvency, where companies have assets in several jurisdictions at once. The IMF also published an in-depth study on national insolvency regimes. In September of 1999, it supported and participated (with other IFIs) in a major symposium on insolvency systems, organized by the World Bank. The symposium kicked off a new phase of IFI efforts in this area.

*(5) Vigorously promote policies that aim at appropriate burden-sharing by the private sector so that investors and creditors bear more fully the consequences of their decisions, and accordingly advocate policies which include –*

The United States has actively promoted, as part of the strengthening of the international financial architecture, an appropriate role for the private sector in forestalling and resolving financial crises. The USED has been a strong voice on this issue in the Executive Board. As a result of U.S. and others' efforts, the IMF's Interim Committee, in its September 1999 Communiqué, stressed the importance of ongoing efforts to involve the private sector in forestalling and resolving financial crises, and noted the progress achieved in securing the

involvement of the private sector in individual cases. In this connection, the Committee considered that “the balance of the various considerations reflected in the report by G-7 Finance Ministers to the Köln Economic Summit provides a helpful framework within which the international community can work to address individual cases that may arise.” The Committee asked the Executive Board to build on this framework, drawing on its experience with individual country cases.

The G-7 framework promotes appropriate “bailing in” of private sector lenders, and aims at a system in which countries can address debt problems in a market-based, orderly way. It recognizes the need to balance competing considerations on a case-by-case basis, in a way that preserves the fundamental principle that creditors should bear the consequences of the risks they assume, while not undermining the equally essential principle that debtors should honor their obligations. Consistent with this framework, the international community’s approach to resolving the debt problems of a number of countries reflects wide recognition both of the importance of private-sector involvement and of the need for solutions to reflect the specific circumstances of each case.

Appropriate private sector involvement will be a consideration in reviewing individual country programs, and the USED will remain an active voice on this issue.

*(A) Strengthening crisis prevention and early warning signals through improved and more effective surveillance of the national economic policies and financial market development of countries (including monitoring of the structure and volume of capital flows to identify problematic imbalances in the inflow of short and medium term investment capital, potentially destabilizing inflows of offshore lending and foreign investment, or problems with the maturity profiles of capital to provide warnings of imminent economic instability), and fuller disclosure of such information to market participants;*

An essential aspect of crisis prevention is effective surveillance. The IMF’s Article IV reviews now place greater emphasis on the identification and analysis of vulnerabilities. In addition, the IMF is expanding the *Special Data Dissemination Standard* (SDDS) to provide for a more comprehensive and timely disclosure of data on countries’ international reserve positions (See Part 12). The IMF is also helping countries to establish separate systems for high-frequency monitoring of private external liabilities. Systems to monitor interbank lines have been or are being established in Argentina, Brazil, Ecuador, Indonesia, South Korea, Mexico, the Philippines, Thailand, and Turkey. Further steps to strengthen the SDDS requirement for reporting of external debt and to add indicators for financial sector soundness are being considered.

In addition to enhanced data collection and surveillance, the IMF (with the World Bank) is considering the development of a set of best practices in debt management, which: encourage greater reliance on long-maturity, domestic-currency denominated, debt; discourage the use of put options in emerging market debt instruments; discourage rigid debt structures; encourage the creation of deeper domestic bond markets; encourage governments that are heavily dependent on commodities revenue to hedge their exposure to commodity price volatility, and promote arrangements that provide greater contractual risk-sharing between creditors and debtors; and

promote the use of contractual provisions in offshore sovereign bond documentation that facilitate orderly restructuring.

The IMF has also supported the efforts of the Basle Committee on Banking Supervision to update and modernize the 1988 Basle Capital Accord, so that the capital requirements imposed on commercial banks better reflect their underlying credit risks. Under proposals released for public comment in June, banks could be subject to higher capital requirements for lending to riskier borrowers, and the regulatory bias towards short-term interbank lending to non-OECD countries could be reduced.

*(B) Accelerating work on strengthening financial systems in emerging market economies so as to reduce the risk of financial crises;*

As mentioned in Section 3, the IMF is working with other IFIs to promote stronger financial systems in emerging market economies. The IMF has expanded its expertise in the area, and undertaken research to guide its efforts. It is also actively involved, with the World Bank, in monitoring the implementation of the Core Principles for Effective Banking Supervision. Furthermore, the IMF has increased its cooperation with the World Bank in this area, including through the joint Financial Sector Assessment Program and cooperative assessments of other standards and codes (see Section 3).

*(C) Consideration of provisions in debt contracts that would foster dialogue and consultation between a sovereign debtor and its private creditors, and among those creditors;*

The IMF is part of an effort in the official community to broaden the use of contractual provisions in international sovereign debt contracts that can facilitate the efficient and cooperative resolution of sovereign debt problems. Collective action clauses can help to facilitate the inter-creditor coordination needed to help ensure that a small minority of creditors cannot block or disrupt consensual negotiations between the majority of creditors and the sovereign debtor. They can also discourage small minorities of creditors from disrupting orderly negotiations, in a way that can undermine debtors' long-term prospects and also erode the value of claims owed to other creditors.

The expanded use of such contractual provisions was proposed by the 1996 G-10 Report on the Resolution of Sovereign Liquidity Crises and was endorsed by the G-22. The IMF has sponsored a workshop to build understanding about the legal issues associated with these contractual provisions, and to build awareness of various contractual provisions that have already been market tested. The United States proposed and other G-7 countries endorsed a series of concrete steps that the IMF could take to strengthen incentives for emerging market borrowers to use such contractual provisions. The USED will follow up on the proposals to promote IMF action in this area.

*(D) Consideration of extending the scope of the International Monetary Fund's policy on lending to members in arrears and of other policies so as to foster the dialogue and consultation referred to in subparagraph (C);*

In June 1999, the IMF Executive Board agreed to extend, on a case-by-case basis, the scope of the IMF's policy on lending into arrears. This decision would enable the IMF to provide financial support for policy adjustment, despite the presence of actual or impending arrears on a country's obligations to private creditors, including arrears on bonded debt. According to the new criteria, such support should be provided where: (1) prompt IMF support is considered essential for the successful implementation of the member's adjustment program; (2) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with creditors.

*(E) Intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises;*

More orderly workouts will be facilitated by: more dialogue between the debtor and its creditors before a crisis strikes; the broader use of collective actions clauses; and application, as appropriate, of the IMF's policy on lending into arrears. The approaches adopted in actual crises will necessarily depend on the circumstances of the particular case, including the country's capacity to pay, its ability to regain full access to the markets, and the nature of the country's outstanding debt instruments. Each case should be addressed in a manner consistent with the principles that debtors and creditors should work cooperatively to find a solution to the country's debt problems, and that no one category of private external creditors should be regarded as inherently privileged. The IMF is working with countries to encourage them to engage in cooperative and transparent negotiations with creditors when they are facing financial difficulties.

*(F) Consideration of establishing ad hoc or formal linkages between the provision of official financing to countries experiencing a financial crisis and the willingness of market participants to meaningfully participate in any stabilization effort led by the International Monetary Fund;*

While there are not always formal linkages between the provision of official financing and private sector involvement, private lenders are strongly encouraged to participate meaningfully in stabilization efforts. This is often accomplished most effectively through voluntary approaches between countries experiencing financial difficulties and their creditors. As seen in South Korea in December of 1997 and Brazil in February of 1999, voluntary private sector coordination in recognition of its mutual interest in avoiding withdrawals can be very constructive. The IMF, in exceptional cases, has linked the provision of official support to agreements between the borrower and its creditors to refinance, reschedule, or restructure some of the debt falling due.

*(G) Using the International Monetary Fund to facilitate discussions between debtors and private creditors to help ensure that financial difficulties are resolved without inappropriate resort to public resources; and*

The United States believes that appropriate communication between debtors and creditors is crucial to orderly crisis prevention and resolution, and has built broad support at the IMF for this view. Consequently, the IMF has strongly emphasized the importance of working with creditors cooperatively and transparently to find an appropriate solution to a country's financing difficulties. Ideally, countries would develop mechanisms for more systematic dialogue with their main creditors before a crisis strikes. Several countries, including Mexico, Argentina, and South Africa, have already established closer and regular contact with creditors.

*(H) The International Monetary Fund accompanying the provision of funding to countries experiencing a financial crisis resulting from imprudent borrowing with efforts to achieve a significant contribution by the private creditors, investors, and banks which had extended such credits.*

There are increasing efforts to involve the private sector in crisis prevention through market-based contingent credit lines in debt instruments. Once a country experiences difficulties, the IMF strongly encourages discussions between debtors and creditors, and considers whether it may be appropriate to link the provision of official assistance to efforts by debtor countries to pursue commitments by creditors to maintain current exposure levels or restructure outstanding obligations.

*(6) Vigorously promote policies that would make the International Monetary Fund a more effective mechanism, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), for promoting good governance principles within recipient countries by fostering structural reforms, including procurement reform, that reduce opportunities for corruption and bribery, and drug-related money laundering.*

The IMF's 1996 Declaration on "Partnership for Sustainable Global Growth" includes a statement on the need for promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper. Subsequently, in August 1997, the IMF published guidelines on governance, instructing staff to accord a high priority to promoting good governance, and procedures to be followed in this regard.

IMF support for transparency and free markets is one element of its efforts to promote good governance. The IMF's fiscal policy advice promotes transparency and elimination of exemptions. Trade and exchange liberalization and elimination of price controls can reduce the scope for corruption. The establishment of central bank independence helps to end directed credits, preferential lending, and inflationary quasi-fiscal financing. Private sector development helps to build respect for contracts and transparent rules of the game.

Inclusion in programs of measures to strengthen governance and eliminate corruption has become standard operating procedure in Fund programs in recent years. This includes PRGF programs, which involve a special focus on budgetary management and transparency. For a growing list of countries, this has been an important element of the IMF's policy dialogue with national authorities.

- In Cote d'Ivoire, the ESAF program has been suspended since March 1999 because of IMF concerns about several unresolved governance issues in addition to serious weaknesses in the fiscal area and delays in important structural reforms. The IMF is willing to resume negotiations of the second annual ESAF with Cote d'Ivoire after these issues are effectively addressed.
- Indonesia's program was suspended until the IMF was satisfied on issues including whether the Indonesian authorities conducted a full audit of the banking transactions involved in the Bank Bali scandal, publicly disclosed their findings, and committed to prosecuting the wrongdoers.
- In the 1999 Article IV discussion of Morocco, the USED noted the government's decision to participate in a World Bank pilot project to develop anti-corruption strategies and improve transparency of government operations.
- In Ukraine, the IMF indicated in March that the Ukrainian authorities undertook a number of transactions with their reserves in 1997 and 1998 that may have led to the disbursement of Fund loans based on an overstated level of reserves. The IMF and Ukraine have tightened Ukrainian reserve management practices and they are now undertaking detailed audits of the National Bank's activities for this period. The first of the audits will be completed and published soon. Ukraine will also institute more detailed quarterly audits going forward, and it has agreed to place the proceeds of any new IMF disbursements in an account at the Fund that can be used only to repay debts.
- The IMF and Russian officials hired independent auditors in the spring of 1999 to investigate the irregular transactions associated with off-shore subsidiaries of the Central Bank. The auditors published their findings and indicated that they did not find evidence of misappropriation of funds. The IMF and Russia took steps to strengthen Russia's reserve management practices and also agreed that new IMF tranches would be disbursed into an IMF account that could only be used for debt repayment. After these measures were taken, the IMF Board approved a new program for Russia in July 1999. This program was delayed in the fall after Russia failed to meet a number of structural conditions required for continued disbursements.
- Uganda, a recipient of debt relief under the HIPC Initiative, has taken several steps to improve the quality of governance. The government has increased the budget for its anticorruption strategy, which has enabled the Office of the Inspector General of Government to increase its professional staff from 40 to 100, and to establish regional offices to investigate allegations of corruption at the district level. Looking forward,

the government is taking steps to reform its procurement policy, to pass legislation requiring public officials to disclose their assets, and to make further improvements in transparency in key areas noted during its participation in the IMF's exercise on standards and codes. (The IMF's findings for Uganda are posted on the Fund's website.)

- Kenya's IMF program was suspended in August 1997, primarily over governance/transparency issues, with other donors suspending their own programs during this period or shortly thereafter. While serious efforts to address these governance concerns were lacking for much of the period since the 1997 decision, the government has taken several steps in recent months towards meeting IMF concerns, including confirming the independence of the Kenya Revenue Authority, appointing a new director of the Kenya Anti-Corruption Authority, and appointing a well-known opposition figure to reform the civil service. In light of these developments, the IMF has begun negotiations with the Kenyan authorities regarding the steps that will be necessary to establish a firm basis for a new program. Continued and accelerated improvement in governance will be an important condition for ongoing Fund engagement.
- During the Board discussion of the Kyrgyz Republic's PRGF request (February 2000), the USED stated her concern about the lack of transparency and the absence of an anti-corruption program, and encouraged authorities to build upon the small steps that are currently being undertaken in the areas of customs administration, public administration, business licensing, and the judiciary.

Beyond specific cases, recent experience has further highlighted the importance of governance issues for the Fund's overall operations. At the insistence of the United States and other major shareholders and following deliberations at the 1999 Annual Meetings, the IMF will now be undertaking an authoritative review of its procedures and controls to identify ways to strengthen safeguards on the use of its fund. In addition, the Interim Committee has instructed the IMF to enhance its support for members' efforts to maintain strong internal financial controls and tighten supervision and regulation of domestic financial institutions and off-shore banking centers, including measures to deter money laundering.

In addition, the United States, along with others in the G-7, will be pressing the IMF, among other things, to look at the potential to expand circumstances under which advance repayment can be required and, more broadly, to pursue enhanced monitoring of policy commitments while drawings on the Fund remain outstanding but after program conditionality has ended.

(7) *Vigorously promote the design of International Monetary Fund programs and assistance so that governments that draw on the International Monetary Fund channel public funds away from unproductive purposes, including large “show case” projects and excessive military spending, and toward investment in human and physical capital as well as social programs to protect the neediest and promote social equity.*

The United States, through the USED, has strongly urged the IMF to devote increased attention and effort to the curtailing of excessive military spending, the reduction of spending by governments on “show-case” projects, and the increase in social spending. We are seeing some indications that our efforts are paying off.

- The IMF’s September 1996 Declaration on “Partnership for Sustainable Global Growth” stresses among its eleven principles the need to improve the quality and composition of fiscal spending by reducing unproductive spending while ensuring adequate basic investment in infrastructure and human resources.
- The United States is urging increased collaboration between the IMF and World Bank in this area, specifically on public expenditure reviews.<sup>6</sup> Such reviews would aim to increase transparency in public expenditures and promote better allocation of resources.
- The IMF’s membership endorsed a code of good practices on fiscal transparency, aimed at enhancing the transparency of fiscal policy, promoting quality audit and accounting standards, and reducing or eliminating off-budget transactions and accounts, which are often the source of unproductive government spending.
- The IMF publishes an annual report on trends in world military spending. It finds that global military spending declined sharply from 3.5 percent of GDP in 1990 to 2.3 percent in 1997. In IMF program countries, military spending fell from 5.5 percent of GDP in 1990 to 2.25 percent presently.

The Treasury has implemented legislation that required the USED at the IFIs, beginning October 1, 1999, to oppose (abstain or vote “no”) disbursements (other than for basic human needs) to any country that does not have in place a functioning system for reporting audits of military expenditures to civilian authorities. The Treasury has led an interagency policy group to determine which countries’ military audit systems do not meet the standards of the legislation, and has kept the USED informed of U.S. voting obligations. Further, the Treasury and the USED have worked together to promote more systematic consideration of this issue among IMF staff and management. Together, we have informed the relevant countries of our interagency-established legislative compliance criteria and we have urged them to make their military audit systems meet the standards of the legislation.

- At our urging, Indonesia’s IMF program contains commitments from the government of Indonesia to audit receipts and expenditures from private foundations and other extra-budgetary sources that fund military activities. These commitments aided in making Indonesia’s military audit system meet the standards set forth in the legislation.



- Following consultations with the USG and the IMF, the government of Nigeria reactivated the role of its Auditor General, subjected defense spending to the same accountability standards as other ministries, and committed to consolidate all extra-budgetary military expenditures into the budget.
- The USED encouraged Turkmenistan, in its Article IV review, to implement an annual process for ex-post audits of all expenditures – including military – and report results to civilian authorities.
- Since October 1, the USED opposed IMF assistance to Rwanda and Guinea-Bissau due to their lack of military audit systems that met the standards of the legislation.
- The USED is also seeking more systematic Fund surveillance of military spending in the context of routine Article IV consultations and the General Data Dissemination System (GDDS).<sup>1</sup> The United States advocated language in the G-8 Köln Summit Communiqué which states that it is necessary to “monitor systematically military expenditures in the larger context of public expenditure patterns and in the macroeconomic context for growth and development.”

In context of the HIPC Initiative, the United States has been a leading advocate for enhanced debt relief for the IMF's poorest members as part of a comprehensive treatment of debt by bilateral and multilateral creditors. Recognizing that debt relief must be accompanied by sound policies to support growth and poverty reduction, the United States has also pushed for an open dialogue with outside groups in the development of a new poverty focused framework for IFI concessional operations in these countries. At the G-7 Summit in Cologne, the United States and the other G-7 nations called for the development by the IMF and World Bank of an enhanced framework for poverty reduction. The United States has worked extensively with the IMF, World Bank, outside groups and other member governments to develop a strategy for a more integrated, poverty focused approach to IFI operations. As part of this effort, the United States Executive Directors to the IMF and World Bank hosted a conference, "Making the Link Between Debt Relief and Poverty Reduction," bringing together representatives from creditor and debtor governments, IMF and World Bank staff, NGOs, religious groups and other outside experts to discuss how the Fund and the Bank can enhance their efforts to support effective use of resources released from debt relief and, more broadly, to support countries efforts to achieve high quality growth and poverty reduction. These efforts have supported the development of a new country-Poverty Reduction Strategy process announced at the Annual Meetings that would serve as the starting point for all IMF and World Bank operations. And, reflecting the new context for IMF concessional lending operation for low income members, the IMF Board will replace the ESAF with the new Poverty Reduction and Growth Facility (PRGF).

The United States has emphasized five critical elements for the new Poverty Reduction Strategy. (1) A growth-oriented, integrated strategy for poverty reduction and human development. A comprehensive Poverty Reduction Strategy Paper (PRSP), prepared by the recipient country in cooperation with the World Bank and IMF, and in consultation with civil

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<sup>1</sup> The IMF works through the GDDS to assist member countries in improving the quality and integrity of data (financial, economic, socio-demographic) and to encourage the public release of this data.

society groups, would focus on a core set of monitorable poverty reduction and health goals, such as: increasing literacy, reducing infant/child mortality, lowering AIDS incidence, and improving environmental conditions. The precise mix of goals and policies will vary from country to country, consistent with priorities identified as most critical for poverty reduction.

(2) Increased and more effective fiscal expenditures for poverty reduction. This would entail the establishment of mechanisms to help ensure that a country captures the gains from debt relief, that these resources provide true additionality in meeting priority requirements, and that monitoring by civil society is encouraged to track the effectiveness of these expenditures.

(3) Transparency, including monitoring and quality control over fiscal expenditures. This aspect would involve the publication of key Fund-Bank documents as well as budgetary information and would address the need for accounting and monitoring mechanisms, such as auditing systems, to help ensure that budgetary resources are used effectively.

(4) Greater public ownership of programs. Country officials would be expected to consult with civil society in the development of programs and the IMF and Bank country representatives would hold more frequent press conferences, or participate in "town meetings" organized and hosted by the national authorities. Also, the Bank-Fund teams would facilitate meetings between national authorities and NGOs/associations representing various constituencies (e.g., labor, environment, business).

(5) Stronger incentives for follow-through on poverty reduction. The institutions should do more to promote consistency in their decision making on lending operations. For example, if the Executive Board of the Bank identifies concerns regarding progress in meeting core poverty reduction measures, this should be reflected in decisions related to IMF programs, as well as Bank lending and HIPC relief.

The IMF participates in the new Poverty Reduction Strategy through the PRGF. This facility is a reform of the IMF's approach in low-income countries. The PRGF places poverty reduction, along with sustainable growth, at the center of the framework for supporting economic reform in these countries. The IMF will play a tightly focused role in support of macroeconomic reform, with the World Bank taking the lead and working with countries to develop poverty reduction strategies. In designing this new approach, a strong effort was made to incorporate suggestions put forward in past evaluations of the ESAF, many of which echoed concerns that had been expressed by members of Congress.

All Fund concessional lending programs now explicitly require that countries develop poverty reduction strategies to improve social spending and more equitably distribute the gains of growth from their macroeconomic programs.

- The first three enhanced HIPC cases came to the IMF Board in February 2000 for discussion of their decision points. At the decision point: (1) the IMF Board assesses a country's eligibility for enhanced HIPC debt relief, including the government's efforts in preparing a poverty reduction strategy, to be designed in consultation with civil society, the World Bank, the IMF, and other donors; (2) international donors begin to provide debt service relief. At the completion point: (1) the HIPC country should have demonstrated considerable implementation of its poverty reduction strategy; (2) international donors provide debt stock reduction.

- ❖ In the case of Uganda, the USED sought to ensure that the poverty reduction strategy benefited from the results of the new participatory process, already planned by the authorities and intended to build upon existing practices, as a precondition for the submission of the paper outlining the strategy to the Executive Boards of the IMF and the World Bank. Endorsement of the paper by the respective boards is a condition for reaching the completion point.
- ❖ In the context of its poverty reduction framework, the government of Bolivia has committed to numerous specific steps to improve social welfare. Such steps include, among other things: implementing a health insurance system by October 2000, which would provide a basket of basic health services free to the entire population; and refocusing public spending on education toward primary and secondary education.
- ❖ In the cases of Mauritania and Bolivia, the USED pushed for more thorough inclusion of baseline figures in setting monitorable targets for social indicators in the countries' poverty reduction strategies. Along with giving specific advice on how the poverty reduction strategy should be integrated with the overall macroeconomic program, the USED also advocated a transparent procedure to track social spending against debt relief so that the benefits of HIPC are effectively channeled into poverty reduction.
- To improve the effectiveness of its social spending, the government of Albania committed in its December 1999 LOI to undertake several measures. These include performing an expenditure tracking exercise, utilizing a database of social assistance recipients developed last year to improve targeting of budget funds, and conducting (with World Bank assistance) a public expenditure review.

*(8) Work with the International Monetary Fund to foster economic prescriptions that are appropriate to the individual economic circumstances of each recipient country, recognizing that inappropriate stabilization programs may only serve to further destabilize the economy and create unnecessary economic, social, and political dislocation.*

It is clearly important to differentiate between country circumstances in composing policy advice and conditions. The United States has actively advocated more careful differentiation, and we have seen some results in the IMF. In several Asian cases, the heavy emphasis on structural reform measures in both Indonesia and South Korea reflected the nature of the weaknesses that helped precipitate and intensify the crises in these countries. This is also true of the emphasis on restructuring and strengthening of the financial system in Indonesia, South Korea, and Thailand.

In general, each IMF arrangement is the result of a cooperative effort between the authorities, IMF staff, and staff from other international institutions such as the World Bank and other development banks. For a program to be successful, the member country must have a strong sense of ownership. Designing a program appropriate to individual countries – and all segments of civil society – has been a critical element of promoting ownership. This was

broadly recognized during recent internal and external reviews of the effectiveness of ESAF, as was the importance of maintaining a degree of flexibility in program design – i.e., achieving the same objectives through different combinations of measures. Cooperation with the World Bank in undertaking assessments of the impact of programs on different segments of society is an example of working to tailor adjustment programs to different cases.

- (9) *Structure International Monetary Fund programs and assistance so that the maintenance and improvement of core labor standards are routinely incorporated as an integral goal in the policy dialogue with recipient countries, so that –*
- (A) *Recipient governments commit to affording workers the right to exercise internationally recognized core worker rights, including the right of free association and collective bargaining through unions of their own choosing;*
  - (B) *Measures designed to facilitate labor market flexibility are consistent with such core worker rights; and*
  - (C) *The staff of the International Monetary Fund surveys the labor market policies and practices of recipient countries and recommends policy initiatives that will help to ensure the maintenance or improvement of core labor standards.*

In the autumn of 1999, in compliance with the 1995 Foreign Operations, Export Financing, and Related Programs Appropriations Act, the Treasury produced the *1999 Annual Report to Congress on Labor Issues and the International Financial Institutions*. This is an extensive report on the Administration's approach to advancing CLS internationally, recent Treasury and USED efforts in this area, and actions planned by the IFIs to integrate CLS into their operations and analytical work.

The United States is the most vigorous proponent of core labor standards in the IMF. The USED promotes, in the context of labor market liberalization, the five internationally recognized core labor standards: (1) freedom of association; (2) right to organization and collective bargaining; (3) prohibition of exploitative child labor; (4) prohibition of forced or compulsory labor; and (5) protection against discrimination in employment.

Despite reluctance by many member countries to address this issue, some progress has been made. During this past year, as a result of U.S. efforts, labor issues were addressed in a number of important IMF programs.

- In Indonesia, in response to the urging of the United States and the IMF, Indonesia ratified ILO Convention 87 (Freedom of Association). The United States and the IMF also raised the issue of restrictions on independent unions and, together with the weight of international public opinion, succeeded in obtaining the release from prison of Mr. Mochtar Pakpahan, an influential union leader. Indonesia also ratified ILO Conventions 105 (abolition of forced labor), 111 (employment discrimination), and 138 (child labor) in 1999. In doing so, it is the first East Asian country to have ratified all seven of the core ILO conventions. In the February 2000 discussion of a new program for Indonesia, the USED commended the Indonesian authorities for having ratified these ILO conventions. However, the USED also noted concern about reports that workers are being arrested and employers are undertaking reprisals against workers for engaging in

union activities. Indonesia was urged to adhere to its timetable to enact changes to its labor laws to make them fully consistent with the seven ILO core conventions and to cease arrests and reprisals.

- In Brazil, we have stressed to the IMF and the Brazilian government that budget austerity measures not impact on those agencies responsible for enforcing labor laws, and that social programs for the poor and disadvantaged be spared from cuts as much as possible. More recently, the Brazilian government has submitted to Congress a labor reform package that provides for increased flexibility while reducing restrictions on the creation of new unions and promoting direct bargaining between unions and employers at the firm level.
- In January 1999, the USED abstained on a review of Pakistan's ESAF program in part because of Pakistan's poor record on labor issues, especially child labor.
- In June 1999, the USED encouraged the IMF in its dialogue with Morocco to take measures designed to facilitate labor market flexibility that are consistent with core worker rights, including the rights of free association and of collective bargaining.
- At the request of the United States, the IMF raised issues of core labor standards during negotiations with the Government of Mexico in the Stand-By Facility negotiated in 1999. IMF staff reported that they raised and discussed these matters in the context of overall economic restructuring underway in that country. The Mexican press reported that labor issues were raised by the IMF during its mission.
- Thailand enacted a law in February of 2000 restoring rights of association and collective bargaining to workers in state-owned enterprises. Treasury and the USED supported a broad-based U.S. Government effort to encourage these reforms by repeatedly raising these issues during Executive Board discussions and by urging the IMF to stress the importance of these issues with the Thai authorities.
- In the January 2000 Board discussion of Bangladesh's Article IV Consultation, the USED stated its desire to see an improvement in the rights of workers in Bangladesh's export processing zones. Specifically, concern was expressed over violations of those workers' rights to freedom of association and collective bargaining. The USED noted that these concerns may lead to Bangladesh losing export privileges to the U.S. market this year under the Generalized System of Preferences.
- In its December 1999 LOI, the government of Bolivia reported that last autumn the Congress approved a law intended to protect the rights of children and prevent the exploitation of child labor. A new draft law will be introduced in October 2000, which aims to modernize the labor market and bring Bolivian labor regulations in line with the norms of the International Labor Organization, particularly with respect to labor safety and equality of treatment between men and women.

In many of these cases, the actions reported above are only first steps in advancing core labor standards as part of the IMF's ongoing dialogue with member governments. Continued U.S. engagement will clearly be needed to advance further progress in this area.

The United States is also seeking, through the USED, to engage other international organizations on this issue. We have vigorously promoted improved cooperation between the IMF and the ILO. As a result, in April, the ILO participated, for the first time ever, as an observer in the Interim Committee of the IMF. It is now a permanent observer of this Committee. We are actively engaged with our G-7 partners as well as other receptive countries to support our position on core labor standards at the IMF and other IFIs. For example, at the urging of the United States, the IMF, along with the World Bank and the AFL-CIO, sponsored a seminar on "A Role for Labor Standards in the New International Economy?" on September 29, 1999 during the Annual Meetings of the IMF and World Bank. The seminar focused attention on the macroeconomic implications of core labor standards.

In addition, the Treasury is taking steps to improve its ability to assist the USED in this area. The department hired, on a full-time basis, an official with extensive experience in this area to address core labor standards in the context of IFI programs. The department is also working more closely with U.S. Labor Department and other institutions, such as the ILO. For instance, the Labor Department systematically receives IMF documents on surveillance and lending programs, and provides input to Treasury and the USED.

Partly as a result of U.S. efforts, labor standards are increasingly a part of IMF discussions. Recent program documents have included analysis of Core Labor Standards and statements on child slave labor and other labor issues. The Treasury and the USED will continue its efforts in this area.

*(10) Vigorously promote International Monetary Fund programs and assistance that are structured to the maximum extent feasible to discourage practices which may promote ethnic or social strife in a recipient country.*

The USED has been strongly supportive of two policy tracks to address this issue. (1) The United States has raised this issue in the context of poverty alleviation and the creation or strengthening of social safety nets. Creating sustained and equitable economic growth is one essential way to reduce social strife. This is the basic objective of IMF programs, along with ensuring a viable balance of payments situation. Providing for and establishing adequate social safety nets is another critical element, and an area in which the IMF closely cooperates with the World Bank. (2) As part of the policy changes directed by the Executive Board, the IMF is also now undertaking – with the assistance of the multilateral development banks – to establish a process for assessing how programs will affect various segments of society as a means of ensuring minimal disruptions.

In regard to the recent tragedy in East Timor, the United States moved quickly and successfully to urge the management of the World Bank, Asian Development Bank (ADB) and International Monetary Fund (IMF) to make clear that they were not prepared, under the circumstances, to support further major disbursements to Indonesia. In addition, World Bank

President Wolfensohn and IMF Managing Director Camdessus sent letters to President Habibie expressing their deep concern about the situation and the implications of the crisis for the capacity of the international community to support economic reform in Indonesia going forward.

*(11) Vigorously promote recognition by the International Monetary Fund that macroeconomic developments and policies can affect and be affected by environmental conditions and policies, and urge the International Monetary Fund to encourage member countries to pursue macroeconomic stability while promoting environmental protection.*

The United States has consistently voiced in the IMF its view that economic development is inextricably linked to environmental conditions and policies and that macroeconomic stability is a minimum and necessary condition for preserving the environment. Some early steps have been taken in this area.

The IMF has hosted several seminars on macroeconomics and the environment intended to increase staff awareness of current research in the field and identify ways in which the staff could incorporate environmental concerns into their policy dialogue with member countries. In addition to this staff work to increase the understanding of the links between the macroeconomy and the environment, the IMF contributes to international work underway on the design and implementation of green national accounts, which include the depletion and depreciation costs of a country's environmental assets.

Operationally, the IMF relies on the expertise of the World Bank for analysis of environmental issues in individual countries. However, due at least in part to U.S. urging, IMF staff has encouraged, in some cases, or required countries to adopt appropriate environmental policies in support of macroeconomic stability. Some examples follow.

- In Brazil, recent reports indicate that the government has allowed expenditures on high profile environmental programs to decline substantially during the course of its IMF program, despite promises to maintain them. The USED will press the IMF to seek better results in this area in discussions of future lending.
- One of the structural performance criteria in Indonesia's program required the government to bring the Reforestation Fund onto the budget and perform a comprehensive audit of the fund. Indonesia subsequently performed the audit and published it. The GOI has also committed to use resources from this fund only for reforestation. In addition, there is currently a moratorium on new forest conversion licenses, which will remain in place until transparent, rule-based procedures are developed to minimize further conversion of the remaining natural forest. There is still room for improvement in this area, however, and the IMF, World Bank, and other donors are fully engaged with the Indonesian authorities to bring about further reforms.
- In Côte d'Ivoire, under an ESAF program, the government's environmental policy sought to slow logging operations and rehabilitate forest resources through the imposition of limits on timber exports and a review of forestry taxation.

- In Mauritania, the preservation of its fishing resources constituted an important element of the medium-term adjustment strategy under the ESAF program.
- In October 1999, Cambodia requested an arrangement under the ESAF. Current legislation requires the U.S. to oppose any IFI financing for the central government of Cambodia (other than for basic human needs). While stating our opposition to the arrangement, the USED also noted U.S. concerns about the adequacy of the new draft forestry law and decrees, and the effectiveness of the review of illegal logging concessions.
- In its Article IV discussions with authorities in Laos, the IMF raised the issue of sustainable natural resource management for forestry, water, and agricultural land to prevent over-exploitation. The IMF recommended strengthening the forestry regulatory framework and enforcement as well as a review of logging and export privileges reserved to military-owned enterprises.
- In its 1999 staff report on the Solomon Islands, the IMF integrated environmental considerations into its macroeconomic assessment. Specifically, the report discussed how several years of unsustainably high logging rates and destructive harvesting practices have nearly depleted the forestry resources of the economy and reduced incentives to diversify the productive base of the economy.
- The IMF has agreed to work with the World Bank to reinforce the environmental conditions the World Bank has proposed with respect to the prospective Chad-Cameroon oil development project.

*(12) Facilitate greater International Monetary Fund transparency, including by enhancing accessibility of the International Monetary Fund and its staff, foster a more open release policy toward working papers, past evaluations, and other International Monetary Fund documents, seeking to publish all Letters of Intent to the International Monetary Fund and Policy Framework Papers, and establishing a more open release policy regarding Article IV consultations.*

One of the results of recent crises has been a growing international consensus in favor of increased transparency and accountability. This was clearly demonstrated by the recommendations made on October 2, 1998 by the G-22 working group on transparency and accountability, which included concrete steps toward greater IMF openness. The G-7 set a specific challenge for the IMF in this area when, on October 30, 1998, it laid out a work program, which included actions to increase transparency and accountability of the institution and its lending policies.

Indeed, this is the area on the U.S. agenda for IMF reform in which most progress has been achieved since passage of the IMF legislation. With the support of IMF management, the Executive Board has taken decisions that expand significantly the scope and type of information



now released to the public. This includes undertaking more openness about the IMF's own operations and policies, as well as promoting the release of information by member countries.

The IMF now actively encourages countries to release "Public Information Notices" (PINs) following Board discussions of their Article IV consultations. PINs were issued following 113 of the 139 (81 percent) Article IV consultations conducted in 1999. (In calendar year 1998, PINs for 81 out of 104 (78 percent) Article IV discussions were released.) In addition, a new pilot project has been created to allow countries, if they choose, to release the staff reports for the Article IV consultations – providing yet further details about IMF staff analysis and policy dialogue with the member country. Under this pilot project, 29 countries, including the United States, have now made public the staff reports prepared as part of the Article IV surveillance process. (In August 1999, the IMF posted the 1999 U.S. Article IV staff report on its website.) Nearly 20 additional countries have agreed to release their staff reports in the future.

The IMF has adopted a presumption that member countries will release program documents (Letters of Intent, Memoranda of Economic and Financial Policies, and Policy Framework Papers) following Board discussions. Countries not willing to do so must explain to the Board in advance of program approval so that Directors can take this into account in considering the program. Since June 1999, when the presumption was adopted, 50 of 58 countries have published the full set of their program documents considered by the IMF Board. In the March 5, 1999 discussion of transparency and Fund policies, the Executive Board agreed that, in approving or reviewing a member's arrangement with the Fund, a statement by the Chairman capturing the key points made by the Board should be made public.

PINs are also now used to inform the public of Board conclusions following discussions of policy issues and regional surveillance. In 1999, PINs were released on the following issues: HIPC Initiative modifications, Euro-area monetary and exchange rate policies, IMF transparency, and decisions to strengthen the Special Data Dissemination Standard with respect to reserves reporting.

Detailed information about the IMF's financial resources and liquidity position is now available on the IMF internet site, as is the Annual Report. In addition, at the urging of the Treasury and USED, the IMF Executive Board recently reached an agreement on quarterly publication of the operational budget – to be renamed the Financial Transactions Plan – with a one quarter lag. This would be consistent with the legislative mandate that was enacted in last year's authorization of IMF off-market gold sales. The first such "FTP", covering the period March-May 2000, will be published in August.

The waiting period for release of Executive Board documents in the archives has been reduced from thirty to five years. Other documents are now accessible after twenty years rather than thirty. The IMF also started a pilot program for external evaluation, which led to external evaluations of IMF surveillance and economic research activities (see Section 13).

In addition to sweeping changes to increase its own transparency, the IMF has actively promoted greater transparency in member governments as well. The IMF is a central participant

in the effort to promulgate an array of international standards and best practices -- to reinforce the ability of national governments to make informed choices and measure their own performance. Recent steps in the IMF include further strengthening of the standards for data dissemination, adoption of a code for fiscal transparency in 1998, and the recent adoption of a code for monetary and financial policy transparency.

- The Special Data Dissemination Standard (SDDS) was created by the IMF to provide for a more comprehensive and timely disclosure of countries' economic and financial data. Currently, 47 economies subscribe to SDDS. Twelve countries comply with the standard. The IMF Executive Board approved in March 1999 a strengthening of the *Special Data Dissemination Standard* (SDDS) to provide for a more comprehensive and timely disclosure of data on countries' international reserve positions. The new reserves standard, which will go into effect in April 2000, addresses gaps in the original standard established in 1996. Seven countries, including the United States, already report reserves according to this template. Also in March 1999, the Board decided to require countries subscribing to SDDS to create "hyperlinks" between the IMF's SDDS web site and up-to-date country pages with summary data on economic and financial developments; this requirement took effect on January 1, 2000. Further steps to strengthen the SDDS requirement on external debt reporting and to incorporate indicators of financial sector soundness are under consideration.
- The IMF's *Code of Good Practices on Fiscal Transparency* was approved by the Executive Board and was endorsed by the Interim Committee in April 1998. An implementation manual, a questionnaire, and a self-evaluation report were prepared and disseminated. (The U.S. Treasury's submission of the IMF's Transparency Questionnaire and Transparency Self-Evaluation Report is available on the Treasury website.)
- A *Code of Good Practices on Transparency in Monetary and Financial Policies* was approved by the Executive Board on July 9, 1999 for transmittal to the Interim Committee, which adopted it on September 26. The Code seeks to establish standards for monetary and financial authorities in the following areas: clarity of roles, responsibilities, and objectives; open process for formulating and reporting policy; public availability of information; and accountability and assurances of integrity. Among other specific elements, the Code calls for regular independent audits of central banks' financial statements, which will help to ensure that IMF funds are accurately accounted for.

In addition to participating in the development of such standards, the G-7 has called on the IMF to take the lead in a system for assessing implementation of these codes and standards, building on the Article IV surveillance process and relying on close collaboration with the World Bank and other standard setting bodies. The G-22 Working Group on Transparency and Accountability recommended last fall that the IMF, in the context of its Article IV consultations, prepare transparency reports that summarize the degree to which economies meet internationally recognized disclosure standards. Australia, Argentina and the United Kingdom prepared an

initial round of transparency reports. The Executive Board discussed these in late March when it was agreed to widen the scope of the exercise to more thoroughly understand countries' observance of standards in core areas of IMF expertise. A second set of experimental Reports on the Observance of Standards and Codes (ROSCs)<sup>2</sup> -- including reports on Bulgaria, Cameroon, the Czech Republic, Hong Kong, Tunisia, Uganda and Ukraine -- was released by the IMF on September 21, 1999. These studies assess, in varying scope, the extent to which these countries observe international standards in areas of direct operational relevance to the IMF (e.g., data dissemination, fiscal policy transparency, monetary and financial policy transparency, and banking supervision). (See Section 3.)

These standards are already beginning to be implemented.

- For example, the USED worked with IMF staff to obtain a commitment from the government of Pakistan to undertake a fiscal transparency study in an effort to address weaknesses in the government's budgetary accounting and control procedures, a step that was agreed upon in September 1999.
- In a June 1999 Board discussion, the USED stressed that Yemen's economic management would clearly benefit from better fiscal controls and improved transparency and accountability of budget and expenditure processes, including those for military spending.
- In the July 1999 Article IV Review for Kazakhstan, the USED noted the important steps taken by the government to improve the transparency of its budget processes and urged that those efforts continue. The USED also encouraged the government to improve its data dissemination practices.
- As a prior action for its staff monitored program, the Liberian government provided a full accounting of large extrabudgetary expenditures and agreed to take further steps toward increasing transparency and improving governance.

The IMF recently began posting Country Pages on its website. The Country Pages include official documents and financial information on the IMF's 182 member countries and other economies.

*(13) Facilitate greater International Monetary Fund accountability and enhance International Monetary Fund self-evaluation by vigorously promoting review of the effectiveness of the Office of Internal Audit and Inspection and the Executive Board's external evaluation pilot program and, if necessary, the establishment of an operations evaluation department modeled on the experience of the International Bank for Reconstruction and Development, guided by such key principles as usefulness, credibility, transparency, and independence.*

The USED has promoted institutional accountability at the IMF, including through the promotion of increased and earlier publication of Fund documents and through the

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<sup>2</sup> ROSCs represent the evolution of the transparency reports recommended by the G-22.

systematization of independent review procedures. To this end, the USED has strongly supported the recent introduction of independent evaluation procedures. The first evaluation under these procedures, External Evaluation of the Enhanced Structural Adjustment Facility, was completed in early 1998 and is available on the Fund's Website. In the summer of 1999, two additional reports were presented to the Executive Board: External Evaluation of Fund Economic Research Activities and External Evaluation of Fund Surveillance, both of which are currently available on the IMF's website. A review of the two-year experience will be taken in the period following the Annual Meetings with a view to regularize the process of independent evaluation through permanent procedures. The USED has vigorously urged the IMF to establish an independent evaluation unit that would undertake, and subsequently publish, periodic reviews of IMF operations, including its concessional lending facility. Currently, an Evaluation Group, which includes the U.S., is assessing the IMF's options and preparing a proposal for the Board and the International Monetary and Financial Committee.<sup>3</sup>

The Fund's Office of Internal Audit is responsible for ongoing reviews within the Fund through several distinct functions: institutional review of operational methods; liaison with the External Audit Committee, which oversees annual financial audits; regular internal audits, including financial, operational, and systems audits; ad hoc investigations, with or without the help of specialized experts; work practice reviews; and liaison for external evaluations. Over the past year, for example, the Office of Internal Audit has completed a general services review, examining the effectiveness and efficiency of support services including information services, facilities and related services, and financial support and control services. As part of this review, the OIA's own operations were evaluated by an external consultant. Also in the course of the year, an external review of the Fund's external audit function was completed.

*(14) Vigorously promote coordination with the International Bank for Reconstruction and Development and other international financial institutions (as defined in Section 1701 (c)(2)) in promoting structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending, especially in the world's poorest, heavily indebted countries.*

The general working premise of Fund programs, as they relate to the banking sector, is that credit be made available on equal terms and on a commercial basis. This includes small- and medium-size enterprises as well as large companies. The provision of micro-credit is a recognized component of structural adjustment, especially in cases where either state-directed credit was formerly in use, or where large conglomerates or monopolies provided such credit.

In a number of HIPC cases, such as Malawi, Côte d'Ivoire, and Mali, key agricultural crops were generally financed through monopolies. As these monopolies are being dismantled (so that farmers can receive the full monetary benefits of their crops), the USED has vigorously advocated closer cooperation with the World Bank to develop microcredit institutions to finance small farmers.

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<sup>3</sup> Formerly the Interim Committee.

## *Conclusion*

As this report seeks to demonstrate, both the Treasury Department and the U.S. Executive Director at the IMF take seriously the responsibility to use aggressively the voice and vote of the United States to promote the reforms set out in U.S. legislation. There is much to be done, but there are also signs that our efforts are beginning to have an impact. To be sure, progress is more evident in some areas, such as transparency, than others. Nevertheless, one can take encouragement from the fact that the IMF has shown a willingness and capacity to adapt, and that current IMF management is making a good-faith effort to work with us, as are our G-7 partners and a number of other IMF members. Taken together, our efforts and the steps taken so far by the IMF constitute a foundation on which we will continue to build.