

IMF: a virtually universal institution

Camdessus years marked by progressive process of harnessing globalization benefits for all members

The 13 years that Michel Camdessus spent at the IMF as its Managing Director do not lend themselves to easy generalizations about the work of the institution. It is, however, possible to point to an overarching theme: the steady advance of *globalization* and the role of the IMF in the process.

The word "globalization" itself gained increasing currency during the Camdessus years, reflecting the accelerating international integration of markets to which it refers. Globalization has been driven by technological change and financial liberalization and sustained by an appreciation among policymakers that an open, liberal, and rules-based international trading and financial system is essential to global economic progress. But globalization brings disruption and risks as well as benefits. One form of disruption is the unemployment and human dislocation that can be associated with structural change in economies. Another is financial crises associated with volatile capital flows: in particular, currencies have proved vulnerable to speculative attack when international investors have sensed policy weakness, as the crises of the 1990s—in the European Monetary System, Mexico, Asia, Russia, and Brazil—all demonstrated. Surges of private international capital played a significantly smaller role in the crises of the earlier part of the IMF's history, such as the collapse of the Bretton Woods exchange rate system in 1971–73, the oil shocks of 1973–74 and 1978–79, and the debt crisis of the early 1980s.

The work of the IMF during the Camdessus period is perhaps best understood as a progressive process of equipping the institution and its members to harness the benefits of globalization while minimizing its pitfalls. First, the IMF has been working to help all countries enjoy the benefits of globalization. This has been helped by the globalization of the IMF itself—its transformation into a virtually universal institution. The IMF has worked to be relevant to the entire membership, by appropriately adjusting its lending facilities and other operations, including by introducing its concessional facilities—the Structural Adjustment Facility (SAF) and the Enhanced Structural



Michel Camdessus

Adjustment Facility (ESAF), which is now the Poverty Reduction and Growth Facility (PRGF)—for the poorest countries. The IMF has also encouraged its members to take advantage of globalization by removing current account payments restrictions and accepting the obligations of Article VIII; by moving toward, and establishing the conditions for, orderly capital account liberalization; and by increasing the flexibility of markets in the domestic economy.

At the same time, the IMF has made no secret of the disruptions and risks associated with globalization. The reference to "high levels of employment" among the purposes of the IMF has pointed directly to the responsibility of the IMF to advise on macroeconomic and structural policies that can help to reduce unemployment, its duration, and its human cost. And, as often as it has advocated financial and capital account liberalization, the institution has cautioned against over-hasty, ill-conceived opening measures. As Managing Director, Camdessus was eloquent in warning both that globalization was a constant goad for rectitude in economic policymaking—for policies that would keep at bay financial contagion, as well as direct speculative attack—and that globalization called for policies that promoted equity as well as efficiency.

The impact of globalization on the poor and vulnerable—for bad as well as good—has, in fact, been a constant preoccupation. During Camdessus's tenure, social safety nets became a much more prominent part of the

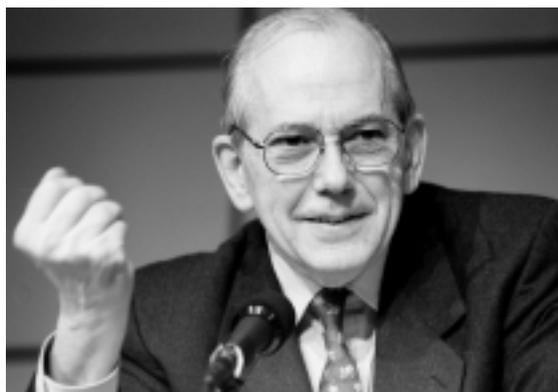
IMF: a virtually universal institution

Camdessus years marked by progressive process of harnessing globalization benefits for all members

The 13 years that Michel Camdessus spent at the IMF as its Managing Director do not lend themselves to easy generalizations about the work of the institution. It is, however, possible to point to an overarching theme: the steady advance of *globalization* and the role of the IMF in the process.

The word “globalization” itself gained increasing currency during the Camdessus years, reflecting the accelerating international integration of markets to which it refers. Globalization has been driven by technological change and financial liberalization and sustained by an appreciation among policymakers that an open, liberal, and rules-based international trading and financial system is essential to global economic progress. But globalization brings disruption and risks as well as benefits. One form of disruption is the unemployment and human dislocation that can be associated with structural change in economies. Another is financial crises associated with volatile capital flows: in particular, currencies have proved vulnerable to speculative attack when international investors have sensed policy weakness, as the crises of the 1990s—in the European Monetary System, Mexico, Asia, Russia, and Brazil—all demonstrated. Surges of private international capital played a significantly smaller role in the crises of the earlier part of the IMF’s history, such as the collapse of the Bretton Woods exchange rate system in 1971–73, the oil shocks of 1973–74 and 1978–79, and the debt crisis of the early 1980s.

The work of the IMF during the Camdessus period is perhaps best understood as a progressive process of equipping the institution and its members to harness the benefits of globalization while minimizing its pitfalls. First, the IMF has been working to help all countries enjoy the benefits of globalization. This has been helped by the globalization of the IMF itself—its transformation into a virtually universal institution. The IMF has worked to be relevant to the entire membership, by appropriately adjusting its lending facilities and other operations, including by introducing its concessional facilities—the Structural Adjustment Facility (SAF) and the Enhanced Structural



Michel Camdessus

Adjustment Facility (ESAF), which is now the Poverty Reduction and Growth Facility (PRGF)—for the poorest countries. The IMF has also encouraged its members to take advantage of globalization by removing current account payments restrictions and accepting the obligations of Article VIII; by moving toward, and establishing the conditions for, orderly capital account liberalization; and by increasing the flexibility of markets in the domestic economy.

At the same time, the IMF has made no secret of the disruptions and risks associated with globalization. The reference to “high levels of employment” among the purposes of the IMF has pointed directly to the responsibility of the IMF to advise on macroeconomic and structural policies that can help to reduce unemployment, its duration, and its human cost. And, as often as it has advocated financial and capital account liberalization, the institution has cautioned against over-hasty, ill-conceived opening measures. As Managing Director, Camdessus was eloquent in warning both that globalization was a constant goad for rectitude in economic policymaking—for policies that would keep at bay financial contagion, as well as direct speculative attack—and that globalization called for policies that promoted equity as well as efficiency.

The impact of globalization on the poor and vulnerable—for bad as well as good—has, in fact, been a constant preoccupation. During Camdessus’s tenure, social safety nets became a much more prominent part of the

At the international level, high-quality growth must mean adequate growth in living standards, especially in those countries where living standards are the worst.

—Camdessus

armory of policies that are recommended by the IMF. And Camdessus frequently called for action to rectify the slow progress in reducing poverty around the world. He repeatedly called for governments to reverse the decline in aid budgets and asked policymakers to reflect on the need to place the human being at the center of economic policies. The need to *humanize* globalization was a central consideration for the Managing Director. This has stemmed from Camdessus's vision of human development, rooted in his human and spiritual values, and from his firm conviction that human development is dependent on the quality of economic and social policy. This vision and conviction, in turn, formed the basis of his profound sense of the importance of public service and of the gravity of the IMF's responsibilities.

It is not easy to single out the influence of an individual on an institution that is run by an Executive Board representing the governments of almost all

countries and that favors a collegial and consensual approach to decision making. Perhaps it is clear only to close observers and participants that, on many occasions, the path trodden by the IMF in the past 13 years was one that Camdessus had first to coax the membership to follow; that his boundless energy, firm convictions, and securely grounded optimism were a constant source of inspiration to the IMF, especially its staff, and to many leaders and policymakers in its member countries around the world; that he repeatedly demonstrated the courage needed, when the advice of others had been heard and evaluated, to undertake the most lonely task of leadership—to decide and to act; and also, that if the IMF in the 1990s was in the thick of the process of globalization that was characteristic of the decade—as its promoter, its crisis manager, and as an agent for its humanization—this was in no small part due to the vision and leadership of Michel Camdessus. ■

IMF under the leadership of Michel Camdessus

January 1987– February 2000

Michel Camdessus, the seventh Managing Director of the IMF, led the IMF for almost a quarter of its life to date and during a period of unprecedented challenges, associated in part with the increasing globalization of the world economy.

Perhaps most notably during Camdessus's tenure, the institution was called upon to support the transformation and integration into the global market economy of the former centrally planned economies of the Baltics, Russia, and the other countries of the former Soviet Union, as well as a number of other countries that had previously adopted central planning in Asia and in central and eastern Europe.

Camdessus's period at the IMF also saw a refocusing of the debt strategy launched in the early 1980s and an associated deepening involvement by the IMF with its poorer members, especially through support for structural reform made possible by the ESAF, which was introduced in his first year as Managing Director. In the latter part of his years in office, the IMF has provided unprecedented financial support to emerging market countries contending with crises that were related partly to the increased scale of capital flows and that have in some cases appeared to threaten the global financial system.

Camdessus's three terms as Managing Director, from 1987 through early 2000, saw the IMF achieve virtually universal membership (the number of member countries rising from 151 to 182) and were marked by a strengthening of the IMF's central responsibility of surveillance over member countries' economic policies against the background of increasing globalization.

Although it was a period of momentous change, Camdessus's time at the IMF was also characterized by *continuity*. He often emphasized that the purposes of the IMF remained those laid out in the Articles of Agreement, which were devised by the institution's founders in the mid-1940s. In order to continue serving these purposes effectively, the IMF had to evolve, adapting to its wider membership, changes in the world economy, and lessons about economic policy.¹ With regard to the IMF's policy advice to its membership, although there were changes of emphasis, there was also considerable continuity in the IMF's advocacy of disciplined macroeconomic management and structural reforms to improve the working of markets. In fact, in what Camdessus referred to as a *silent revolution*, a high degree of consensus emerged in the late 1980s that these were the essential elements of good economic policy. Through their promotion, the IMF contributed to improvements in global economic performance, including the decline of inflation to its lowest rates since the 1960s and, in many cases, the narrowing of fiscal imbalances and improved growth.

Another phrase entered the IMF's lexicon during Camdessus's first term: *high-quality growth*. This was introduced by the Managing Director to refer to the kind of economic growth that he saw as being the job of the IMF to promote. In a statement before the UN Economic and Social Council in 1990, he made it clear that he considered high-quality economic growth to be the prime objective of the IMF's work, and he explained what he meant on this and several other occasions.² In a speech in New York in 1993, he put it this way: "By high-quality growth, I mean growth that is sustainable,

that promotes greater equality of income through greater equality of opportunity, and that respects both human freedom and the environment. And, at the international level, high-quality growth must mean adequate growth in living standards, especially in those countries where living standards are lowest.²³

In his first address to the Annual Meetings as Managing Director in 1987, Camdessus outlined many of the themes that would come to dominate the work of the IMF in the closing years of the century. He spoke of his belief that “the IMF has a crucial role to play in strengthening multilateral mechanisms of cooperation that can promote faster world economic growth and a stable international monetary system.”²⁴ He then described the central role of the IMF in the debt strategy as helping to design and support economic programs and mobilizing financial flows to sustain a resumed growth in heavily indebted countries. He also spoke about the need for the IMF itself to be adequately financed to carry out its work. In his closing remarks, he pointed out that even crises have a bright side, because they can spur beneficial change: he thus enjoined the membership to “remember that no crisis fails to yield some opportunity.”

Surveillance: cooperation in policymaking

The first of these themes—the importance of multilateral cooperation in policymaking—was not merely of topical relevance in 1987, when the Louvre accord of the previous February was the guidepost for policy cooperation among the Group of Seven major industrial countries. It has remained a central concern of the IMF, with its importance globally reflected in a steady strengthening and broadening of the IMF’s surveillance work.

Without losing sight of the core macroeconomic areas, IMF surveillance has, since the late 1980s, come to pay increasing attention to structural issues because of their importance for overall economic performance, including external viability and economic growth. The currency crises in the European Monetary System in 1992–93 and in Mexico in 1994–95 revealed the vulnerability of economies to abrupt changes in market sentiment in a world of highly mobile capital flows and prompted reflection by the IMF on the scope of surveillance required to help forestall crises of this nature. As a result, increased attention has been paid to financial sector soundness in surveillance, and, in the wake of the Mexican crisis, data standards have been developed to improve the quality, transparency, and timeliness of information made available by countries to the public. An initial focus on the Special Data Dissemination Standard (SDDS)—suited to countries borrowing on international capital markets—has broadened to the General Data Dissemination System (GDDS)—intended for other countries and as an expanded range of information.

Beginning in the mid-1990s, the IMF’s attention to structural policies has increasingly focused on so-called *second-generation reforms*. These are broad-based reforms necessary to ensure the sustainability and quality of the growth achieved through stabilization, adjustment, and the basic reforms needed for a market economy to function without debilitating distortions. Second-generation reforms encompass the financial sector; the transparency of fiscal policy and practices and of economic data; the need to address corruption and establish good governance; and the importance of redefining the role of the state in the economy, especially to complement private sector activity. This last element includes reforms to raise the quality of public expenditure, particularly through greater attention to education and health spending and reductions in military outlays and other unproductive expenditures. Camdessus often stressed the need for such reforms.

In a related vein, Camdessus frequently emphasized the interdependence between economic and social progress and the need to protect the poor and vulnerable during adjustment by creating well-targeted and cost-effective *social safety nets* and safeguarding access to basic public services.

The series of crises that began in Asia in mid-1997 and that afflicted a number of emerging market economies in the subsequent year and a half demonstrated the need for better surveillance—not only of the financial sector but of the nonfinancial corporate sector—and engendered an intensive discussion of ways to make the international financial system less prone to turbulence. The subject of this discussion has come to be known as the *reform of the international financial architecture*. For the IMF, work in this area has included the development and dissemination of standards and codes to provide countries with benchmarks of what constitutes good practice in such areas as monetary and fiscal policy; the design of policies to involve the private sector in crisis prevention and resolution; review and modification of the IMF’s financial facilities; and reconsideration of the requirements for prudent capital account liberalization in emerging market economies.

All industrial countries completed *capital account liberalization* in the early 1990s, including in Europe as part of the Maastricht process of monetary unification. Many emerging market countries began to follow suit. With Camdessus’s encouragement, the membership recognized the liberalization of capital flows as an objective in 1997. At the 1997 Annual Meetings, the Interim Committee of the Board of Governors, in its “Hong Kong Declaration,” called for a new chapter to be added to the Bretton



1989 Annual Meetings

Woods Agreement through an amendment to the IMF's Articles that would make the orderly liberalization of capital movements one of the purposes of the IMF.⁵ Discussion of the proposal continues, in the context of the reform of the architecture, against the background of the increasing importance of private capital flows in the international monetary system, and the lessons drawn from experience on the appropriate pace and sequencing of capital account liberalization.



Camdessus conferred almost daily with his senior deputies. Pictured with him here, in a 1995 meeting, are then Deputy Managing Director Alassane Ouattara (left), First Deputy Managing Director Stanley Fischer, and then Deputy Managing Director P. R. Narvekar.

With regard to *current account liberalization*, partly in response to an initiative by Camdessus, his second term saw a marked acceleration in the number of countries eliminating restrictions on current account transactions and accepting the related obligations of Article VIII of the Articles of Agreement. In fact, the proportion of the membership accepting the obligations of Article VIII, Sections 2, 3, and 4, doubled to 82 percent between 1987 and early 2000. And close to the end of the period, it was announced that Brazil, the last major economy not to have done so, would shortly accept the obligations of Article VIII.

The IMF's involvement with the Group of Seven process has continued, with the Managing Director participating in surveillance discussions of the finance ministers. During the 1990s, the IMF was also called on to assist surveillance exercises in a number of other country groups, including the Asia-Pacific Economic Cooperation (APEC) forum and the Western Hemisphere finance ministers. The IMF's role in helping surveillance within these groups has been linked to its World Economic Outlook global surveillance exercise, which in turn draws on the IMF's surveillance work with individual countries. The Interim Committee gave added impetus to global policy cooperation at the IMF in April 1993 by adopting, during a global cyclical downturn, a "Declaration on Cooperation for Sustained Global Expansion." With similar intent, the "Declaration on Cooperation to Strengthen the Global Expansion" was issued in Madrid at the Annual Meetings of October 1994, and the "Declaration on Partnership for Sustainable Global Growth," at the Annual Meetings of September 1996.⁶

Of growing importance has been *regional surveillance*. In addition to the IMF's involvement with the regional

economic forums referred to above, during Camdessus's tenure, regular discussions began to be held with the European Commission on policies within its areas of competence and with the European Central Bank in the context of European Economic and Monetary Union (EMU). Over time and partly to safeguard against economic and financial crises, the *continuity of surveillance* has also been substantially increased, in part through the Executive Board's regular discussions of world economic and market developments, which developed out of Board discussions on exchange rate developments introduced by Camdessus in 1987. In addition, informal Board discussions of "country matters," focusing on important topical issues as they arose between the Board's regular discussions of the countries in question, were introduced in the mid-1990s.

Along with its scope, the *transparency* of surveillance, and of the IMF's operations more generally, increased steadily during Camdessus's tenure. Published summaries of Article IV discussions, once confined to a small number of industrial countries and published with a considerable lag in the IMF's *Annual Report*, are now routinely released for the vast majority of members shortly after the Board discussion. A pilot program involving the release of staff reports of Article IV discussions is under way, and many letters of intent—written by authorities seeking the IMF's financial support for policy programs—are also being released, with the IMF's encouragement. Technology has contributed to the increasing openness of the IMF, with the establishment in 1996 of the external website and its subsequent development into one of the IMF's most important instruments of external communication.

In recent years, the IMF has also opened itself to external evaluation by independent outside experts of some of its major activities, including the ESAF, surveillance, and research.

Consistent with the right given to members under the Articles of Agreement to determine their own exchange rate arrangements, the IMF has continued to exercise surveillance over a variety of exchange rate regimes in member countries. The most significant development in the exchange rate system during Camdessus's tenure was the consummation of EMU, with the introduction of the euro, in January 1999. Another development of major importance was the devaluation in January 1994 of the overvalued CFA franc, which boosted growth performance in the concerned African countries in the late 1990s.

Debt and poverty in developing countries

A second theme Camdessus highlighted in his inaugural address in 1987 remained an essential part of the IMF's work throughout his years at the IMF: working with its developing country members to attain external viability, often in the face of high levels

of external debt, to foster high-quality growth and to reduce poverty, especially in the poorest countries.

The point of departure for the IMF's work among this group of countries over the past decade and a half has been the recognition that sustained growth in living standards calls for policies to be geared to medium-term goals and not merely the immediate task of stabilization; that high-quality growth and even the attainment of narrower macroeconomic objectives require a range of structural and social policies in addition to macroeconomic ones; and that the external debt burdens of these countries must not stand in the way of achieving these goals.

The IMF was closely involved in the external debt problems of its low- and middle-income members from the start of the debt crisis in 1982. By the time Camdessus came to the IMF, the initial systemic threat posed by the crisis had passed, but its effects were still keenly felt in many countries. The institutional arrangements to help middle-income countries fell into place fairly soon afterward: a mixture of debt relief granted by official creditors; acceptance of losses by private creditors; and the provision of new money, much of it in the form of grants or on concessional terms, mainly by official donors and lenders in support of programs of economic adjustment and reform supported by the IMF.

In the IMF's relations with its poorest members, a key development in the first year of Camdessus's tenure was the creation of the *ESAF*. This followed the *SAF*, which had been introduced in 1986. With the help of financial contributions from many member governments, and with an enlargement and extension of the facility in December 1993, the *ESAF* provided the basis for the IMF's concessional financial support for macroeconomic and structural policies oriented toward external viability and sustainable growth in low-income countries, up to late 1999. In fact, the *ESAF* became the most utilized of the IMF's facilities during this period: by late 1999, the *ESAF* accounted for more than half of the almost 60 arrangements outstanding with member countries. An innovation was the policy framework paper (*PPF*), prepared by the authorities in collaboration with the IMF and the World Bank, setting out the medium-term strategy. Reviews of country experience with *ESAF* have shown that, as a group, those that implement *ESAF*-supported programs have enjoyed faster growth and lower inflation than comparable non-*ESAF* countries.⁷

For a significant number of low-income countries, however, the goal of external viability remained elusive, owing to various factors, including imprudent debt management, lack of perseverance in structural adjustment and economic reform, poor governance, and external pressures, including deterioration of the terms of trade. To help address these problems and to

intensify efforts to help the poorest countries attain external viability, the IMF and the World Bank in September 1996 launched the *Initiative for Heavily Indebted Poor Countries (HIPC)*, with the aim of reducing the external debt burdens of these countries to sustainable levels in a reasonably short time.⁸

Despite the progress made under *ESAF/HIPC*, it became increasingly clear toward the end of the 1990s that poverty reduction in the poorest countries needed to be speeded up. Clearer country ownership of programs offered one of the most promising ways of achieving this. One result, in late 1999, was the introduction of the enhanced framework for poverty reduction, including the transformation of the *ESAF* into the *Poverty Reduction and Growth Facility (PRGF)*, which, as its name implies, places poverty reduction at the heart of the IMF's support for programs among its poorest members.⁹ Central to the new approach will be a *poverty reduction strategy paper (PRSP)*, drawn up by the authorities of the country concerned and taking into account a participatory consultation process involving civil society. The *PRSP*, unlike the *PPF*, will form the basis not only of lending by the IMF and the World Bank but also of the financial support provided by multilateral lenders and donors. In addition, to provide faster, broader, and deeper debt relief, the *HIPC Initiative* was enhanced in late 1999. Progress toward financing the *HIPC Initiative* and the continuation of the *PRGF* was achieved by securing bilateral contributions from a wide cross section of the IMF's membership and contributions from the IMF, the latter mainly derived from the investment income on the profits from off-market transactions in gold of up to 14 million ounces.

The persistence of widespread poverty and underdevelopment cast a shadow over the many positive developments of the past 13 years. In one of his last speeches as Managing Director, Camdessus remarked, "the slow progress on poverty around the world and the fact that in many places poverty reduction seems to be losing ground are clearly the most serious crisis factors at the end of this century."¹⁰ He used the occasion to remind the membership of the need to fulfill their existing pledges to help poor countries, including pledges made at successive UN conferences, and of the importance of the new poverty reduction initiative.

Economies in transition

Something that Camdessus's inaugural speech did not anticipate was that another group of countries—those embarking on the historic transformation from central planning to a market economy—would be at the center of much of the IMF's work during his tenure; this could hardly have been foreseen before the fall of the Berlin Wall in 1989. The Baltics, Russia, and the other countries of the former Soviet Union joined the IMF in the early

The slow progress on poverty around the world and the fact that in many places poverty reduction seems to be losing ground are the most serious crisis factors at the end of this century.

—Camdessus

IMF support for the economies in transition has been intensive in terms of policy advice, technical assistance, and financing.

—Camdessus

1990s when they, and most of the countries of central and eastern Europe, confronted an immediate challenge of achieving macroeconomic stabilization in the wake of price liberalization and in the face of excess money balances and the obsolescence of a large proportion of the capital stock, as well as the more time-consuming challenges of wide-ranging structural and institutional reform.

An IMF-led study of the economy of the U.S.S.R., published in 1991, and work related to the institution's association agreement with the former Soviet Union in the same year gave the IMF some insight into the problems of the Soviet economy and the difficult circumstances of what became its successor states. To help meet the special needs of its new members undertaking transition, the IMF in 1993 established the temporary Systemic Transformation Facility to provide financing, under conditionality appropriate to the early stage of transition, for balance of payments difficulties caused by disruptions in trade and payments arrangements associated with the collapse of the central planning system.

IMF support for the economies in transition has since been intensive in terms of policy advice, technical assistance, and financing. After a decade of reform efforts, the circumstances of these countries vary considerably. A large majority have achieved a considerable measure of macroeconomic stabilization, moved ahead with structural and institutional reform, and achieved an irreversible transformation of their economies. Most have also achieved a resumption of growth in living standards. In the most successful, output exceeds, or is not far below, pretransition levels, and preparations are advanced for entry into the European Union. Especially in Russia and the other countries of the former Soviet Union, however, the challenges of reform have proved particularly difficult—partly owing to the lack of established institutional and legal frameworks for a market economy—and have been complicated in a number of cases by political instability and civil conflict.

In general, the impact of the IMF's support has been greatest in the countries that have been most willing or able to pursue policies of macroeconomic stabilization and structural reform and that have been open to advice from the IMF and other international financial institutions.

Emerging market crises of 1997–99

Camdessus's inaugural speech anticipated that there would be crises during his tenure, and the most serious occurred toward its end. Even though IMF management and staff had warned of dangers in Asia, particularly Thailand, before the eruption of the crisis in mid-1997, the world was shocked by the depth of the crisis and by the virulence with which it spread.

Almost all of the affected countries turned to the IMF for support, involving it in a major, sustained effort to assist governments in restoring macroeconomic stability and addressing structural weaknesses. This came amid a regionwide loss of confidence characterized by unprecedented capital outflows and rapid currency depreciation, and collapses of demand and economic activity. The crisis called for the IMF to be flexible in program design and to adapt to country circumstances, as well as to assure investors that macroeconomic stability would be restored. These requirements became features of the programs in the three main crisis countries—Indonesia, Korea, and Thailand—as they evolved over time.

The crisis spread beyond Asia initially in late 1997, but it was in August–October 1998, following the Russian default and currency collapse and the near collapse of a major hedge fund (Long-Term Capital Management), that it reached its climax, with the greatest systemic risk. In Latin America, the Brazilian currency in particular came under sustained pressure. Easing actions by the U.S. Federal Reserve and other central banks helped to reduce financial market pressures, but stabilization and reform policies being implemented in Russia and other emerging market economies, with guidance from the IMF, including a new IMF-supported policy program in Brazil, were also important in leading the world economy back from the brink in late 1998 and early 1999. A further crisis in Brazil in early 1999, resolved partly by the country's abandonment of its crawling-peg exchange rate arrangement, was the last significant interruption in this recovery. In most of the crisis economies, the economic upswings since 1998 have exceeded expectations.

Funding the IMF

Large IMF loans for the economies in transition and those affected by the crises of 1997–99 have brought into clear relief the need for the IMF to be adequately financed if it is to be able to support its members' stabilization and reform efforts. (No industrial country has borrowed from the IMF since the late 1970s, reflecting the increased role of financing through the international capital markets.) The membership has strengthened the IMF's financial base in a number of ways since 1987. Of greatest importance have been the two *increases in quotas*. The first, effective in 1992, raised quotas by 50 percent, to SDR 144.6 billion, and the second, effective in 1999, increased quotas by a further 45 percent, to SDR 212 billion. But in relation to the size of the world economy, as Camdessus often pointed out, quotas have declined substantially since the establishment of the IMF, from about 3½ percent of world GDP in 1945 to less than 1 percent in 1999.

The IMF has continued to have access to borrowed resources, now totaling SDR 34 billion, from the *New*

Arrangements to Borrow (NAB), which were established in 1997, with 25 members and institutions, including several emerging market countries. The NAB reinforced the existing General Arrangements to Borrow (GAB), associated with the Group of 10, as a source of liquidity for the IMF in the event of a systemic crisis. The GAB was activated for the first time in 20 years in July 1998 in the context of IMF support for Russia, and the NAB has been activated once, to finance the extended arrangement with Brazil in late 1998.

One aspect of the IMF's finances to which the institution devoted considerable attention in the first half of Camdessus's tenure was the need to reduce *arrears* in members' repayments to the IMF. The IMF's strategy on arrears, which was strengthened in 1990, has three main elements: prevention of new or protracted cases of arrears; intensified collaboration with members in arrears to help resolve the problem, including through rights accumulation programs, when applicable; and remedial measures of increasing intensity applied when members do not cooperate with the IMF in resolving arrears problems. As part of the last element of the strategy, the membership approved the Third Amendment of the Articles, which entered into force in November 1992, stipulating circumstances in which a member can have its voting and certain related rights suspended by the Executive Board. Indicating the success of the strengthened approach, the number of countries in protracted arrears to the IMF has fallen sharply in recent years, from a peak of 12 in 1992 to 7 at the end of 1999. Almost all of these are countries with serious internal or international political problems that have stymied efforts to address their economic difficulties.

IMF facilities

The IMF has modified its *facilities* and access limits in a number of ways in the light of the changing scale and nature of the difficulties facing borrowing members. Increased limits on access to IMF resources and recourse to the exceptional circumstances clause have allowed the IMF when necessary to accommodate requests from members for large loans with heavy front loading. Following the Mexican crisis, when the IMF provided an exceptionally large Stand-By Arrangement, the *Emergency Financing Mechanism* was established to allow rapid consideration of a request by a member for the use of IMF resources in a crisis. Against the backdrop of the Asian crisis and the huge increase in international capital flows in the past decade, the need for large-scale IMF financing in the event of a sudden loss of capital market access became evident. In 1997, therefore, the IMF established the *Supplemental Reserve Facility* to assist members experiencing exceptional balance of payments problems associated with the loss of market confidence through

large, heavily front loaded loans at a premium interest rate and on quick repayment terms.

Another innovation in the IMF's facilities, connected with the institution's work on forestalling crises, was the creation of the *Contingent Credit Lines* (CCL) in 1999. The CCL provide a line of credit to members pursuing strong policies, to be available in the event of a crisis stemming from contagion from developments abroad. The intention of the CCL is to bolster market confidence in a country's policies and its ability to withstand a change of investor sentiment.

SDRs

The First Amendment of the IMF's Articles of Agreement, in 1969, declared the intention of the membership to make the SDR the principal reserve asset of the international monetary system. Without progress toward this objective—in fact, SDR holdings have steadily declined as a fraction of global foreign exchange reserves, from 6 percent in 1970, to 4 $\frac{1}{4}$ percent in 1987, to 1 $\frac{3}{4}$ percent in 1998—there has been frequent discussion over the past 13 years about how to develop the role of the SDR, including the need for a general allocation. Camdessus proposed a general allocation of SDR 36 billion in 1993 and suggested that a way be found for the membership to redistribute voluntarily a portion of this allocation to members that had not benefited from previous distributions.¹¹ Despite wide recognition of the need to address this equity issue, the membership was unable to reach agreement at the September 1994 meeting of the Interim Committee in Madrid. In 1997, however, the Governors approved the Fourth Amendment of the Articles, allowing for a special onetime allocation of SDR 21.4 billion—a doubling of the outstanding stock of SDRs in circulation—to address the equity issue.¹² This amendment still awaits ratification.

Technical assistance

Standing alongside surveillance and financing is the third pillar of IMF work: *technical assistance*. It is a key ingredient in supporting governments' efforts to implement policies and carry out institutional reform. The volume of and demand for assistance, which focuses mainly on the instruments and institutions of monetary and fiscal policy, financial system reform, and the development of statistical systems, has risen sharply during the 1990s. This is partly due to the influx of new members with massive technical assistance needs. But



1999 Annual Meetings

another important element in the growth of demand has been the need for reforms, especially in the financial sector, that became apparent in the course of the emerging market crises. Technical assistance has also followed in the wake of other kinds of crises, including armed conflicts, which call for a rehabilitation of basic economic and financial management capacities.

There was also great emphasis during Camdessus's tenure on capacity building through the *training* of member country officials by the IMF Institute. To

expand the reach and capacity for training officials in their regions, Camdessus launched an initiative aimed at establishing regional training institutes. This initiative has resulted in the establishment of the Joint Vienna Institute in 1992, the IMF-Singapore Regional Training Institute in 1998, and both the Joint Middle East Regional Training Program and the Joint Africa Institute in 1999.

Institutional changes at the IMF

Institutional changes at the IMF have sought to keep pace with the shifting demands on the institution. Reflecting their wish to strengthen the Interim Committee's role as the advisory committee of the Board of Governors, the membership at the 1999 Annual Meetings transformed the committee into the *International Monetary and Financial Committee (IMFC)*. It will meet as such for the first time in April 2000. The establishment of the IMFC falls short of Camdessus's call for the establishment (promised in the Articles of Agreement) of a council with stronger decision-making powers.

The *Executive Board* has increased in size to 24 members from 22 in 1987. The *staff* of the IMF has risen by about 30 percent (to 2,300 regular staff positions from 1,700), owing to the growth in the membership and the increased volume and complexity of the IMF's work. The increase has been associated, in particular, with the tasks of tackling the problems of transition and addressing financial sector issues related partly to globalization. In 1994, the number of deputy managing directors was increased from one to three. There have also been a number of organizational changes within the IMF, including, in 1996, the establishment of an Office of Internal Audit and Inspection and, in 1999, the establishment of a Human Resources Department and a Technology and General Services Department, mainly out of what was formerly the Administration Department.

Collaboration

The IMF and the *World Bank* have extended and formalized their collaboration in a number of ways since the late 1980s, when they clarified their areas of responsibility in the concordat of 1989. Their collaboration has been particularly close in their joint approaches to policy advice and financial support for low-income countries, mentioned earlier. In light of the recent financial crises, they have also intensified their collaborative efforts in monitoring developments in the financial system. The Bank-IMF Financial Sector Liaison Committee was established in September 1998 to advance the delimitation of financial sector work in individual countries. Collaboration with the World Trade Organization, the International Labor Organization, and the UN system were all strengthened during Camdessus's tenure.

Notes

¹"The IMF at Fifty—An Evolving Role but a Constant Mission," address by Michel Camdessus, June 1994.

²Excerpts published in *Finance & Development*, September 1990, p. 10.

³Address to World Congress of the Business Council for the United Nations, New York, June 17, 1993.

⁴Presentation of the Forty-Second *Annual Report* by the Chairman of the Executive Board and Managing Director of the IMF, September 29, 1987.

⁵Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund, September 21, 1997.

⁶Communiqué of the Interim Committee, April 30, 1993; Communiqué of the Interim Committee, October 2, 1994; Communiqué of the Interim Committee, September 29, 1996.

⁷*Economic Adjustment and Reform in Low-Income Countries* (ESAF Review Background Papers), edited by Hugh Bredenkamp and Susan Schadler, IMF, 1999.

⁸Communiqué of the Interim Committee, September 29, 1996.

⁹Ibid.

¹⁰"From the Crises of the 1990s to the New Millennium," remarks by IMF Managing Director Michel Camdessus to the International Graduate School of Management (IESE) Palacio de Congresos, Madrid, Spain, November 27, 1999.

¹¹"Statement by the Managing Director on the Need for and Modalities of an SDR Allocation," IMF internal document, April 12, 1993.

¹²Communiqué of the Interim Committee, September 21, 1997. ■



Camdessus (right) confers, in September 1999, with Benjamin William Mkapa, president of Tanzania.