Contributions from relevant organs, funds, programmes and specialized agencies of the United Nations system

Contribution from

International Monetary Fund (IMF)

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Review of further implementation of the World Summit for Social Development and the outcome of the twenty-fourth special session of the GA
IMF Initiatives to Support the Implementation of the Copenhagen Declaration

On the tenth anniversary of the World Summit for Social Development, the IMF is pleased to report on many areas in which progress towards a greater focus on social development has been achieved. The IMF has continued to refine these areas of work, to improve the quality and effectiveness of its services, consistent with its mandate of achieving macroeconomic stability and sustainable growth. Below are delineated areas of progress, presented by topic area and cross-referenced to specific commitments made in the 1995 Copenhagen Declaration and the outcome document of the 24th special session of the General Assembly in 2000 (Outcome document). While it has not been possible to report on every area of work contained within the two documents that is of relevance to the IMF, most areas of major importance are discussed below.

I. MACROECONOMIC STABILITY, GROWTH, AND POVERTY REDUCTION

The Copenhagen Declaration calls for support from the international community to developing country efforts to achieve rapid, broad-based sustainable development, particularly through technical and financial cooperation and to promote and implement policies for enhanced financial stability (Commitment 1.j).

Notwithstanding many of the significant changes made in IMF operations over the last ten years, the core work of the IMF remains relatively unchanged, and continues to be of vital importance to helping countries reduce poverty. This work is highly relevant to the first of the Copenhagen Commitments, and includes providing macroeconomic policy advice and financial and technical assistance to help achieve macroeconomic stability, a necessary condition for stable economic growth and poverty reduction.

The IMF’s policy advice and assistance to help countries establish macroeconomic stability and sustainable high growth is central to its support for social and human development. The achievement of steady growth and low inflation will benefit the poorest segments of the population, who are likely to be the most vulnerable to economic downturns, and least able to protect the real value of their incomes and savings during periods of high inflation. The goal is to ensure lasting reductions in poverty over the long term. In its dialogue with countries, the IMF has also given increasing emphasis to improving the quality of fiscal adjustment and governance so as to achieve growth which will contribute to raising living standards and poverty alleviation.

In its policy advice, the IMF encourages countries to improve the composition of spending by reducing unproductive expenditures and allocating a larger share of spending for physical and human capital formation.
II. DEBT BURDEN AND DEBT SUSTAINABILITY

The Copenhagen Declaration and the subsequent outcome document of the 24th special session of the General Assembly call for finding durable solutions to external debt problems and the implementation of debt-relief measures (Commitments 7.c and 9.o, and Outcome document section III, paragraphs 6, 119, and 143).

In 1996, the World Bank and IMF launched the Heavily Indebted Poor Countries (HIPC) Initiative. The objective of the Initiative was to reduce the external debt of the world’s poorest, most heavily indebted countries to sustainable levels. Following a comprehensive review in September 1999, the enhanced HIPC Initiative was created, enacting a number of modifications to the original initiative in order to provide faster, deeper, and broader debt relief and to strengthen the links between debt relief, poverty reduction, and social policies. The enhanced HIPC Initiative provides substantial debt relief to countries which implement sound economic policies and critical social reforms as part of an integrated approach to lasting development. The enhanced Initiative has focused on ensuring that resources released through debt relief are used for productive outlays, in particular, for social sector and poverty alleviation programs. Recently, the HIPC sunset clause was extended to end-2006 to provide the opportunity for the remaining countries that could qualify to start to establish a policy track record before this sunset date.

As of September 2004, 27 countries have reached the Decision Point under the Enhanced HIPC Initiative. The total debt relief received by these countries represents a two-thirds reduction in their overall debt stock. Of these 27 countries, 14 have reached the HIPC Completion Point and have received irrevocable debt relief amounting to a 67 percent reduction in the net present value of their debt stock. Irrevocable debt relief to be provided to these 14 HIPC Completion Point countries amounts to US$17 billion in net present value terms. Yet for debt reduction to have a tangible impact on poverty, these additional resources need to be targeted at the poor. Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined. This is no longer the case in the 27 countries receiving HIPC relief.

While HIPCs are seeing clear gains, it has taken time and effort to ensure that money is redirected to aid the poor in ways that most reduce poverty. Difficult problems also remain in HIPCs that have not yet been able to reach their decision points. Some of the latter are plagued by uneven policy records or poor governance, which are worsened by the serious problems that their governments confront, including civil conflict. Some HIPCs also have debts too large to write off given current funding for the Initiative as, for example, in Liberia, Somalia, and Sudan. None of these are easy problems. But the IMF and World Bank are looking for solutions, with poverty reduction as the central focus.

III. SOCIAL POLICIES IN ALL IMF MEMBER COUNTRIES

The social development commitments call on relevant UN agencies and organizations to ensure that macroeconomic policies reflect goals of employment generation and poverty
reduction; and further, to develop and implement pro-poor growth strategies (Commitment 2.k, and Outcome document section III, paragraph 27).

The IMF’s Articles of Agreement state that it is one of the IMF’s purposes to “facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.” Achieving these objectives requires sustained growth supported by sound macroeconomic policies. As previously discussed, the IMF assists member countries in establishing conditions for sustained growth through policy advice, technical assistance, and financial support.

As part of the IMF’s financial assistance contributing to poverty reduction, in September 1999, the IMF established the Poverty Reduction and Growth Facility (PRGF) to make growth and poverty reduction more central to its lending operations in low-income member countries. Key features of PRGF-supported programs include: (1) broad participation and greater country ownership; (2) embedding of the PRGF in the overall strategy for growth and poverty reduction; (3) budgets that are more pro-poor and pro-growth; (4) an appropriate level of flexibility in the design of fiscal targets; (5) more selective structural conditionality; (6) emphasis on measures to improve public resource management and accountability; and (7) greater use of social impact analysis of key elements of the programs, particularly those relating to structural reforms.¹ A review of the PRGF completed in 2002 confirmed that the design of the programs supported by PRGF lending have, in fact, become more pro-poor and pro-growth. As of end-September 2004, 57 countries have benefited from IMF support under the PRGF, and the total amount drawn under the PRGF Facility by the 57 countries is SDR 11.4 billion.

The social development goals call on relevant UN agencies and organizations to ensure that participation by the people concerned in the organization’s policies and programs is central to such programs and policies, and to encourage nationally owned poverty reduction strategies (Commitment 2.h, and Outcome document section III, paragraphs 131 and 132).

The IMF has encouraged wider national consultations with civil society in economic policy formulation. In September 1999, the IMF and the World Bank launched the PRSP approach for formulating comprehensive country-based poverty reduction strategies. Under this approach, countries develop their own comprehensive strategy for growth and poverty reduction based on a broad participatory process involving civil society as well as development partners. The strategy, as documented in a PRSP, integrates macroeconomic, structural, and social policies. The PRSP has been widely supported by countries and development partners. This approach has led to wider consultations within government

agencies as well as between governments and domestic stakeholders and has brought new participants into the policy dialogue. There is now increased awareness of the value of the contributions of civil society to the policy dialogue. Since the launch of this process, 42 countries have prepared full PRSPs.

PRSPs are considered by the Executive Boards of the IMF and World Bank as the basis for concessional lending from each institution and debt relief under the joint HIPC Initiative. The targets and policy conditions in a PRGF-supported program are drawn directly from the country’s PRSP. In principle, PRSPs are also a tool to be used by low-income countries to align their policies towards the Millennium Development Goals (MDGs). The PRSP also serves as a guide for donors to align the conditions of their financial support towards the country’s poverty reduction strategy, thus helping to harmonize and streamline aid flows. Although the content and process of the PRSP is improving, with increasing involvement of parliaments and other domestic stakeholders, a key challenge for improving the PRSPs is to improve the capacity of different groups to engage in constructive dialogue on policy options and participate in the implementation and monitoring of poverty reduction strategies.

The social development commitments call on relevant UN agencies and organizations to both establish guidelines for, and promote policies aimed at, generating domestic revenue for social development, including broad, efficient, and well-administered tax systems, and prevention of corruption, bribery, money laundering, and illegal transfer of funds (Commitment 9.e and f, and Outcome document section III, paragraphs 141 and 142).

The IMF provides policy advice and technical assistance to member countries for mobilizing domestic revenues. Assistance is provided both in the design of tax policy as well as in strengthening revenue administration systems. Tax policy advice focuses on establishing tax systems that are broad-based, non-distortionary, and simple to administer. The IMF is also disseminating best practices in tax policy and administration through various training programs and seminars for government officials from across the membership. IMF programs in PRGF-supported countries typically target an increase in tax revenues of 0.9 percent of GDP.²

The IMF has taken a number of initiatives for promoting good governance. Member countries are encouraged to improve the transparency and accountability of decision making by adopting internationally recognized standard and codes. The IMF has itself developed codes for fiscal transparency and transparency in monetary and financial policies. The IMF also encourages member countries to subscribe to the Special Data Dissemination Standard (SDS) or participate in the General Data Dissemination Standard (GDDS) to enhance the transparency, quality and timeliness of data. For countries benefiting from debt relief under the HIPC Initiative, the IMF has conducted assessments of the capacity of public expenditure systems to track poverty-reducing government spending and provided technical assistance to

² ibid.
strengthen these systems. The IMF has also introduced minimum standards for controlling, accounting, reporting, and auditing systems for central banks of countries benefiting from IMF financial support.

The IMF has also contributed to the world-wide efforts at preventing money laundering and illegal transfer of funds. The IMF and the World Bank have recently completed a 12-month joint pilot program of assessment of compliance with international standards for fighting money laundering and terrorist financing in 41 member countries. The IMF has also provided technical assistance to help countries meet international standards regarding law and regulatory systems, enhance the capacity of financial institutions to combat money laundering, and to improve coordination and collaboration among different government agencies as well as between regional and international bodies.

The outcome document calls on relevant UN agencies and organizations to share best practices on social protection systems, especially targeted at the aging and other vulnerable groups (Commitment 2.d, and 2.g, and Outcome document section III, paragraph 64).

The IMF’s work on social protection systems is limited, given that other development partners have greater expertise in this area. As such, the Fund’s work has focused on assessing the fiscal costs of these systems and options for implementing fiscally-sustainable pension systems. Within this context, there are three principal ways in which the IMF is sharing its expertise: policy advice, technical assistance, and research.

Policy advice is provided in the course of surveillance of a member’s economic policies and in the context of IMF-supported adjustment programs. IMF-supported programs have paid increasing attention to social protection issues, with a view to ensuring that outlays for social safety nets protecting the poor are incorporated into the budget. This is especially the case for PRGF-supported countries. The IMF also provides technical assistance to member countries for implementing fiscally sustainable pension systems. In addition, advice has been provided on how to adopt social protection instruments into social safety nets during periods of adjustment.

The IMF is also disseminating good practices through on-going research on the fiscal implications of social protection systems. In addition, the IMF has also provided policy advice to member countries on issues related to aging. A key focus of IMF advice in this area has been to assess the fiscal costs of health and pension systems as the population ages. This, in turn, can provide a useful starting point for discussing reform options or the need to reduce other spending to accommodate these higher outlays.

The social development commitments call on relevant UN agencies and organizations to ensure social dialogue through effective representation of workers’ and employers’ organizations in the development of social policies (Commitment 3.k, and Outcome document section III, paragraph 33).
The IMF encourages national policy dialogue among different stakeholders, including workers’ and employers’ organizations. As noted above in low-income countries, the PRSP process has established a framework of national dialogue on strategies and policy issues among the government, civil society, and development partners. Workers’ and employers’ organizations are expected to participate in this dialogue. IMF resident representatives and mission teams often meet with representatives of labor organizations to discuss their views on social issues. These meetings also provide an opportunity to explain the nature and rationale for IMF policy advice. IMF staff and management also meet regularly with trade union leaders from throughout the world.

The social development commitments call on relevant UN agencies and organizations to ensure gender mainstreaming and to give attention to the Beijing Conference on Women and the follow-up to the Conference (Commitment 5.1 and Outcome document section III, paragraph 136).

The IMF has supported the Beijing Conference on women, and participated in the follow-up conference to Beijing in 2000. In preparation for the 2005 Beijing+10 follow-up conference, the IMF has submitted a self-assessment report to the UN outlining the areas in which the IMF has made progress towards implementing the strategic objectives of the Beijing Platform for Action.

The IMF supports member countries’ efforts to make gender equality a priority. The IMF contributes towards this objective through its efforts in helping countries achieve the MDGs. Three of the eight MDGs are directly related to gender issues. Thus, achieving the MDGs will go a long way in enhancing the welfare of women in the poorest countries. Many countries are now making gender imbalances an explicit focus of their poverty reduction and growth strategies. Reducing gender imbalances in primary and secondary education and improving access of females to health services, especially maternal and reproductive health, have been identified as priorities in their PRSPs by many countries. Several countries that have reached completion point under the enhanced HIPC Initiative have included gender-specific objectives as part of their poverty reduction strategy. In some cases, gender-specific targets were included as triggers for reaching completion point under the Initiative.

The IMF’s human resource policies and practices have also sought to mainstream gender issues. The work environment has become more supportive for women. Progress has also been made in increasing the representation of women in managerial and professional positions.

IV. SOCIAL POLICIES IN IMF-SUPPORTED ADJUSTMENT PROGRAMS

The social development commitments call on relevant UN agencies and organizations to assess existing programs with a view towards the social impact of structural adjustment programs and reform packages, and when appropriate, the mitigation of their negative impact (Commitment 8.h, and Outcome document section III, paragraph 134).
The IMF acknowledges that many necessary and important economic reforms can have varying distributional impacts on social groups. As such, the IMF and the World Bank, with other organizations, are paying increasing attention to Poverty and Social Impact Analysis (PSIA), with the aim to assess the direct and indirect effects on the poor and other vulnerable groups of macroeconomic, structural, and/or sectoral policy measures and to formulate countervailing measures.

PSIA is a valuable input into policy formulation, promoting a more informed public debate of policy choices and outcomes, and facilitating the adoption of policies that mitigate any adverse effects on vulnerable groups. PSIA is one of the key features of the PRGF. More than half of all such programs refer to some sort of PSIA. Nevertheless, progress in this area has been uneven, and the IMF has recently set up a PSIA team with staff dedicated to the specific task of integrating such analysis into the design of IMF-supported programs. Where appropriate, and with resources permitting, the team will also carry out a limited number of new PSIAs. The IMF and the World Bank are also helping to enhance the technical capacities of low-income countries for undertaking this type of analysis.

The social development commitments call on relevant UN agencies and organizations to promote social policies, including health policies (access to medicine and drug development) and education policies (Commitment 6).

Considerable attention has been paid to social issues in IMF-supported programs. The IMF has encouraged countries to raise the level of social spending to help foster human development and achieve the MDGs. Accordingly, there has been a shift in the composition of government spending towards the social sectors in countries with IMF-supported programs. Data on education and health care spending in countries with IMF-supported programs over the period 1985–2002 show a significant rise in spending in these two areas. Compared to the year preceding the program, education spending has increased, on average, by about 0.4 percentage point of GDP, and health outlays have increased by about 0.3 percentage point in all program countries. The increases for low-income countries are, however, much higher. In these countries, education spending increased by 0.8 percent of GDP and health spending by 0.5 percent. Spending in these sectors has also increased as a share of total government spending. In all program countries, the share of education in total spending has increased by 2.3 percent and that of health by 1.4 percent. The corresponding figures for low-income countries are 2.9 percent and 1.9 percent, respectively. This has translated into sizeable increases in real social spending per person, and to broad-based improvements in social indicators for education and health, particularly those associated with the MDGs.

Progress in re-orienting government spending has been particularly marked in programs supported under the PRGF. These programs seek to shift the composition of government spending towards a broad array of expenditures defined as “poverty-reducing” in countries’ PRSPs. The definition of such spending is country-specific and has included sectors such as primary education, basic health care, roads, rural development, agriculture, judicial systems, and anti-corruption efforts. Recent data indicate that poverty-reducing spending has
increased in countries with PRGF-supported programs, both as a share of GDP as well as of total government spending. Based on data from 30 countries, such spending increased by 1.4 percent of GDP between the pre-PRGF year (usually 1999) and 2002 and by 2.2 percent as a share of total government spending. Spending on poverty reducing programs in countries that have benefited from debt relief under the Enhanced HIPC Initiative is now almost three times the amount spent on debt service payments, representing 7.9 percent of GDP in 2003 (up from 6.4 percent of GDP in 1999). Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health, education, and other services. Poverty-reducing spending is projected to increase in countries that are implementing their PRSPs and that are on track with economic reform programs. This is in line with the philosophy underlying PRGF-supported programs—that governments have a key role to play in promoting economic growth and poverty reduction through the provision of basic social services within the context of a sustainable macroeconomic framework.

V. CRISIS PREVENTION AND CRISIS MANAGEMENT

The social development commitments call on relevant UN agencies and organizations to be vigilant about potential financial crises in countries, to assist countries in developing their capacities to forestall and mitigate crises, and to formulate macroeconomic policies for dealing with financial crisis (Outcome document section III, paragraph 8, 13g).

First and foremost the IMF works to prevent financial crises, such as a balance of payment crisis, through prevention—by helping to ensure a stable global economy and to reduce countries’ vulnerability to crises through its policy advice and country surveillance, and its financial and technical assistance.

Lessons from the Mexican crisis of 1994–95 and the Asian crisis of 1997–98 have led to significant efforts to sharpen the focus of the IMF’s surveillance on crisis prevention. The IMF is monitoring economic and financial developments more closely at the regional and global levels. It is advising its members to incorporate more “shock absorbers” into their policies—such as adequate reserve levels, efficient, and diversified financial systems, more effective social safety nets, and a fiscal policy that leaves room for higher deficits in difficult times. One aspect of this work is helping countries to achieve sustainable debt levels (see section II on Debt Burdens and Debt Sustainability).

The IMF has introduced several specific initiatives that seek to make countries less vulnerable to crises. One such initiative is the in-depth assessment of countries’ financial sectors jointly undertaken by the IMF and the World Bank, under the Financial Sector Assessment Program (FSAP). FSAP reports help countries identify the strengths, risks, and vulnerabilities of their financial systems and formulate appropriate policy responses. In addition, the IMF has developed and actively promotes standards and codes of good practice in economic policymaking, and has developed vulnerability indicators and early warning system models. The IMF has also been increasing its efforts to promote good governance,
which is essential for strong economic performance, with a particular area of emphasis on improving the efficiency and accountability of public sectors and financial systems.

The IMF’s technical assistance is varied, and serves many purposes, but one such objective is to help prevent financial crises by helping countries strengthen their capacity to design and implement sound economic policies. The Fund provides advice and training on a range of institutional and policy issues within its areas of responsibility, including fiscal, monetary, and exchange rate policies; the regulation and supervision of banking and financial systems; the development of statistical systems; and of associated legal frameworks. Technical assistance is often provided to help countries address vulnerabilities or deficiencies identified in FSAP reports and reviews of compliance with standards and codes, and to improve governance.

However, even the best economic policies cannot completely eradicate instability or avert crises. In the event that a member country does experience financing difficulties, the IMF can provide financial assistance to support policy programs that will correct underlying macroeconomic problems, limit disruption to the domestic and global economies, and help restore confidence, stability, and growth. The IMF is continuing to assess its support to countries facing financial crisis, including through the discussion by the IMF board of considerations on crises prevention and precautionary arrangements in September 2004.

VI. INTERNATIONAL INITIATIVES AND COOPERATION

The social development commitments call on relevant UN agencies and organizations to promote countries’ participation in the multilateral trading system and trade liberalization overall (Commitment 1.j, 3.k, 9.p, and Outcome document section III, paragraphs 107 and 143d).

The IMF has consistently advocated for developed and developing countries alike to follow through on the implementation of the Doha Development Round on trade. The essence of the Doha Development Agenda is that the trade and development communities must work together more closely than they have in the past. Developed countries must reduce trade distorting subsidies and open their markets to imports from developing countries, while developing countries should lower their tariff and non-tariff barriers to free trade and build trade capacity.

Although the benefits to freer trade are generally widespread, to encourage greater trade liberalization, the IMF recognizes that some countries may require short-term support when other countries reduce trade preferences or alter trading patterns. As part of the IMF’s commitment to trade liberalization, and assisting member countries in adapting to a more integrated and open world economy, in 2004 the IMF created the Trade Integration Mechanism, or TIM. The TIM is a policy directed at addressing the possible balance of payments impact of liberalization by other countries, agreed in the context of the World Trade Organization (WTO) or implemented unilaterally on a non-discriminatory basis. Under the TIM, the IMF stands ready to support members in identifying the nature and size of these
shocks, in designing appropriate adjustment policies and providing financial assistance to help address any related balance of payments problems. The TIM is meant to address part of this problem, by giving affected countries an additional option in dealing with this situation, while allowing developing countries as a whole to reap the benefits of improved conditions for their exports.

The social development commitments call on relevant UN agencies and organizations to encourage the mobilization of new and additional financial resources for sustainable development (Commitments 1.j and 7.e, and Outcome document section III, paragraphs 142c and 142e).

The IMF recognizes the need for more international development aid, and has consistently advocated for increased development assistance from donor countries. In partnership with the World Bank, the IMF has begun to analyze the viability of alternative, innovative aid financing mechanisms, including of various global taxes, such as a tax on arms sales and a global carbon tax, as well as of mechanisms to frontload aid, such as an International Financing Facility. However, all such proposals face technical challenges and political obstacles that would need to be addressed before they could be implemented.

The social development commitments call on relevant UN agencies and organizations to help countries to utilize more efficiently the resources allocated to social development, and to try to ensure that these resources are effective and allocated predictably (Commitments 1.j, and 9.i).

To improve aid effectiveness, the IMF provides policy advice and technical assistance to help countries create a macroeconomic environment conducive to attracting and effectively utilizing aid resources. One important consideration is how to avoid potential negative macroeconomic effects of large aid disbursements, such as may occur through a real appreciation of the exchange rate. The Fund stands ready to work with government authorities to help adapt countries’ macroeconomic frameworks to accommodate increases in official direct assistance, especially in relation to the anticipated boost in HIV/AIDS assistance to African countries.

The IMF also cooperates in the work of the OECD-DAC and the multilateral development banks’ roundtables to promote the harmonization and simplification of donor procedures and practices, and the alignment of their support with recipient country priorities. These multilateral and donor cooperation efforts are seen by the international community as critical to enhancing the overall effectiveness of aid delivery to promote development and poverty reduction.

The social development commitments call on relevant UN agencies and organizations to support and improve upon existing cooperation between UN organizations and the Bretton Woods institutions (Commitment 10c, and Outcome document section III, paragraph 148b).
The IMF maintains a regular dialogue with the UN, most notably through the work of its UN Office in New York, which coordinates closely with the UN Secretariat and the UN Development Programme. In addition, the IMF’s Office in Europe coordinates with the Geneva-based UN institutions, in particular the UN Conference on Trade and Development (UNCTAD) and the International Labour Organization (ILO). The IMF also collaborates extensively with the World Bank, and has relations with other international organizations.

**CONCLUSIONS**

The IMF’s areas of core competence include providing macroeconomic policy advice and, as needed, financial and technical assistance to correct macroeconomic imbalances. For efforts related to microeconomic reforms and projects, IMF staff rely on their counterparts in the World Bank.

The IMF will continue to strengthen its assistance to low-income countries and to work to promote a stable global economy that is conducive to social development. Work is underway to refine and create improved mechanisms to help member countries cope with shocks, especially low-income member countries. The IMF is intensifying its work on debt sustainability in low-income member countries, and on improving the effective and efficient use of development aid. All of these work areas are likely to improve the IMF’s work in the coming years, and will help to promote social development in all regions of the world.