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August 20, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Draft Progress Report on Progress in Crisis Prevention and the Reform of the International Financial Architecture—Report from APEC Finance Ministers to APEC Economic Leaders**

Attached for the information of the Executive Directors is a draft progress report on crisis prevention and the reform of the international financial architecture for the Eighth APEC Finance Ministers' meeting to be held in Suzhou, People's Republic of China, on September 7 and 8, 2001. The report was prepared at the request of the Chairman of the Suzhou meeting and aims to take stock of progress made since the last APEC Finance Ministers' meeting in September 2000.

This report is being sent to APEC Deputies for comments and will be revised following discussions by the APEC Finance Ministers at the Suzhou meeting. A final version will be submitted to APEC leaders meeting in Shanghai on October 20, 2001.

Questions may be referred to Ms. Metzgen (ext. 37863) and Mr. Blancher (ext. 36525).

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Draft Progress Report on Progress in Crisis Prevention and the Reform of the International Financial Architecture: Report from APEC Finance Ministers to APEC Economic Leaders

August 17, 2001

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I. INTRODUCTION

1. **In their November 2000 Declaration, APEC Economic Leaders welcomed the efforts to strengthen the international financial architecture and the particular emphasis on surveillance and crisis prevention.** They asked APEC Finance Ministers to continue to draw the lessons from the recent crises and deepen the region's understanding of how markets and institutions can be strengthened in face of the changed environment resulting from globalization. They stressed the need for stronger national balance sheets, strengthened and more efficiently regulated banking systems, greater transparency, greater monitoring and control of quasi-government guarantees, and more sustainable exchange rate regimes. They also urged international institutions to continue their efforts in developing a framework for appropriately involving private creditors in crisis resolution, and to increase their focus on policies and programs directed at reducing poverty.

2. **This report summarizes the progress achieved in strengthening crisis prevention and resolution and poverty reduction at the national, regional, and multilateral levels.** It focuses on developments in the period since the 7th APEC Finance Ministers meeting in September 2000, and up to end-July 2001. Key initiatives relevant to the reform of the international architecture were launched in response to the lessons from the emerging market crises. The report demonstrates that national authorities, international institutions, and other bodies and fora have now turned to the implementation of these initiatives, with the objectives of preserving the stability of the international financial system and helping to make globalization work for all.

3. **Implementing the initiatives to reform the international architecture involves changes in both functional and institutional terms.** Functional changes relate to the improvements aimed at better surveillance, stronger financial systems, increased transparency, more effective conditionality and lending facilities. These improvements are tied up with institutional changes, which this report also examines by focusing on the role of the different multilateral institutions and other regional and international fora involved. In this regard, the report points to the growing importance of cooperation and an appropriate division of labor among those bodies to support policies at the national level. Indeed, a landmark of the changed world is that the tasks of crisis prevention and resolution, so central to stability, are so extensive that no one institution can handle either the preventive actions or the diagnosis, treatment, and follow-up care that are needed to prevent or to resolve crises. Division of labor and cooperation are also crucial for the effective delivery of technical assistance to support the reform agenda at the national and international levels.

4. **This report is organized around four main sections on:**

- Progress in Major International Fora on the Reform of the International Financial Architecture;
- The Role of the IMF;
- Multilateral Development Banks;

- Regional Cooperation;
- Poverty Reduction and Development.

II. Progress in Major International Fora on Reform of the International Financial Architecture

5. **At the Seventh APEC Finance Ministers Meeting, in September 2000, while welcoming the progress made in strengthening the international financial architecture, the APEC Finance Ministers urged continued implementation of reforms, including at a regional and national level.** Much work is taking place in various international fora to rise to the challenge of the new global environment and contribute to the efforts to reform the international financial architecture. These efforts involve in particular the Financial Stability Forum. The G-20 and other groups, such as the Group of Ten and the various Basel-based committees, are also contributing to initiatives to reform the international financial architecture.

A. Financial Stability Forum (FSF)

6. **Since its establishment in 1999, the FSF[1] has worked in a number of key areas directly relevant to the promotion of financial stability and the reduction of systemic risk. FSF working groups have in particular focused on issues related to international capital flows, highly leveraged institutions (HLIs), offshore financial centers (OFCs), deposit insurance, standards and codes and, more recently, e-finance.[2] Implementation of the FSF's recommendations on financial sector issues is monitored continuously, through the work of follow-up groups and review at FSF meetings.** This allows for periodic stocktaking on the progress and an assessment of priority tasks. In addition, the FSF secretariat regularly prepares notes on vulnerabilities and on ongoing work relevant to sound financial systems.

7. **A report on progress in implementing the recommendations of the Working Group on Highly Leveraged Institutions was released at the fifth meeting of the FSF in March 2001.** The report notes good progress in strengthening counterpart risk management and regulatory oversight. However, credit providers need to make further progress in the measurement of risks inherent in credit exposures, including by conducting comprehensive stress tests. The report finds that supervisors remain concerned about the ability of regulated firms to resist market pressures. Although disclosure of information by HLIs to credit

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[1] The Forum brings together on a regular basis national authorities from 11 countries (Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, the United Kingdom, the United States), international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

[2] Information on the FSF reports referenced in this section and related information may be found at http://www.fsforum.org/.

providers has improved in terms of both quality and quantity, progress remains inconsistent. The Good Practice Guidelines for Foreign Exchange Trading agreed among leading foreign exchange market participants were welcomed as an encouraging step toward more smoothly functioning foreign exchange markets.[3]

8. **With regard to OFCs, at its March 2001 meeting the FSF noted the actions taken to improve supervisory, regulatory, cooperation, and information practices in offshore financial centers and welcomed the constructive efforts of standard-setting bodies and international financial institutions.** It encouraged OFCs to enlist the assistance of the Fund and the Bank and to participate in assessment programs as appropriate. The FSF will review the implementation of its recommendations in this area, including the future status of its list of OFCs, at its sixth meeting in September 2001.

9. **The FSF has also continued its work to develop international guidance on deposit insurance arrangements and will consider the final report of the corresponding Working Group in September 2001.** A draft of the report, based on an extensive consultation, was posted on the internet in mid-July 2001.[4]

10. **The Follow-Up Group, created to raise awareness on standards, foster their implementation and explore in greater depth issues related to market and official incentives, met in July 2001, and considered further the feasibility of certain supervisory and regulatory-type incentives, as well as efforts to enhance the provision of technical assistance to help countries implement standards.** A final report of the Follow-Up Group on Incentives to Foster Implementation of Standards will be discussed at the September 2001 meeting of the FSF.

11. The E-finance Contact Group, whose main tasks are to monitor e-finance issues, exchange relevant information of cross-sectoral importance, and foster co-ordination among the various bodies and groupings working in this area, will provide a short update note to the September 2001 meeting of the FSF.

12. **As part of its outreach activities, the FSF held its first regional meeting in Mexico City, in April 2001.** These regional meetings bring together senior officials from FSF member and non-member countries in the region to exchange views on vulnerabilities in domestic and international financial systems, brief non-members on Forum discussions, and give them an opportunity to provide views and perspectives on the FSF's work. The next in this series of regional roundtables will be held in Tokyo in October 2001, for Asian/Pacific members and non-members.

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[3] The guidelines have been endorsed by the bodies responsible for foreign exchange market standards in the main financial centers and will be incorporated into existing codes of market conduct.

[4] See http://www.cdic.international/discussion/index.htm.

B. The Group of 20 (G-20)

13. **Members of the G-20, a gathering of finance ministers and central bank governors to advance the reform of the architecture of the global financial system, have engaged in wide-ranging discussions of the opportunities and challenges that globalization creates for their economies.**[5] They have promoted international initiatives such as standards and codes, and have committed themselves to play a leading role in implementing these initiatives. In the fall of 2001, the G-20 will organize roundtables on private sector involvement in crisis prevention and resolution, and on market awareness of standards and codes. The G-20 has also called for the establishment of a clearing house mechanism for technical assistance.

C. Other Bodies

14. **The Basel Committee on Banking Supervision has recently focused its work on the international coordination of the activities of supervisory authorities.** A report on Essential Elements of a Statement of Cooperation between Banking Supervisors prepared by the Working Group on Cross-border Banking was released in May 2001. The report provides a framework for agreements between supervisors, to share information on a basis of mutual trust when the circumstances justify it.

15. **Groups such as the Group of 10 and the Basel-based committees also contribute to the reform of the international financial architecture, including through joint initiatives which reflect strengthened cooperation among international institutions.** For instance, a joint task force on the Winding Down of Large and Complex Financial Institutions (LCFI) was created in 2000 at the initiative of the FSF, G-10, and Basel Committee on Banking Supervision. Another example is the Multidisciplinary Working Group on Enhanced Disclosure, involving the Committee on the Global Financial System (CGFS) together with the Basel Committee, the International Association of Insurance Supervisors (IAIS), and the International Organization of Securities Commissions (IOSCO).

III. THE ROLE OF THE IMF

A. Surveillance and Crisis Prevention

16. **Since the 7th APEC Ministers' meeting, the IMF has contributed to efforts to strengthen the international financial architecture, and has intensified its focus on crisis prevention.**[6] That is, the Fund has sharpened its scrutiny of national policies and

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[5] Information about and publications of the G-20 are available at http://www.g20.org/indexe.html.

[6] Progress in crisis prevention and resolution initiatives up to early April 2001 are reviewed in *Report of the Managing Director to the International Monetary and Financial Committee on the IMF in the Process of Change* (4/25/01). This report and all other cited IMF documents are available on the IMF's external website (www.imf.org), unless otherwise noted.

international markets, focusing in particular on developments that can leave countries vulnerable to crisis. The evolution of Fund surveillance is reflected in the emphasis on enhancing the approach to assessing external vulnerability; work on international standards and codes; strengthened financial sector surveillance; and more focused work on capital accounts and capital markets.

17. **On external vulnerability, recent crises have shown that holding sufficient, readily usable reserves, managing them prudently, and disclosing adequate information to markets is essential to prevent and weather unforeseen shocks.** To help member countries address these issues, the Fund's work has focused on extending the concept of reserve adequacy beyond those needs arising from a country's current transactions to those originating in its capital account. These efforts were reflected in particular in the discussion in early 2000 at the IMF Board on debt and reserve-related indicators of external vulnerability.[7] They are also bolstered by the enhanced reporting on reserves under the Special Data Dissemination Standard (SDDS), and the guidelines for foreign exchange reserve management and for public debt management (both prepared in collaboration with the World Bank).[8] More broadly, the Fund will have an opportunity to take stock of approaches to external vulnerability assessment and their operational use in the work of the Fund in September 2001. Analysis of macroprudential indicators has also advanced, and in June 2001 the Fund endorsed a core set of indicators for assessing financial systems and complementing other tools of vulnerability assessments. In addition, to further focus the Fund's work on vulnerability and capital markets, the new International Capital Markets Department (ICM) began operations in August 2001.[9]

18. **There is broad recognition by APEC members that another important vehicle to promote policy transparency and enhance crisis prevention is the work on international standards and codes.** With the World Bank, the Fund has contributed to the development of standards; has undertaken monitoring and assessment of standards; has also in collaboration with the Financial Stability Forum (FSF) disseminated information on standards; and has encouraged their implementation, including through the provision of focused and targeted technical assistance, and in accordance with countries' circumstances and priorities. Since 1999, Reports on the Observance of Standards and Codes (ROSCs) have been produced and published on a voluntary basis, as a way to promote policy transparency.[10] In early 2001, the Executive Boards of the Fund and the Bank endorsed a list of 11 areas where

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[7] See Debt and Reserve-Related Indicators of External Vulnerability (SM/00/65, 3/23/00); and the Acting Chairman's Concluding Remarks (BUFF/00/09, 5/9/00).

[8] These documents are available at, respectively, http://www.imf.org/external/np/mae/ferm/eng/index.htm and http://www.imf.org/external/np/mae/pdebt/2000/eng/index.htm.

[9] *IMF Establishing International Capital Markets Department*, IMF News Brief No. 01/24 (3/1/01).

[10] As of end-July, 2001, 158 ROSC modules have been completed for 54 countries (see Table 2). Of these totals, 33 countries have chosen to publish 98 modules on the Fund and Bank external websites.

standards are considered important for surveillance (Table 1),[11] and agreed that the FATF (Financial Action Task Force) standards for anti-money laundering should be adapted for the Fund and Bank's operational work and be covered by ROSCs in due course. In March 2001 the Fund and the Bank hosted a Conference on International Standards and Codes with broad international participation, to exchange views on the initiative.[12] The consensus view was that standards and codes provide useful guidelines of good practice for countries and help markets make sound investment decisions. However, some country authorities continued to stress the need for greater participation by developing and emerging market countries in the development of standards.

19. **Related to the work on standards and codes are initiatives by the international community to increase the transparency of countries' policies, international institutions, and the private sector.** The IMF in particular has promoted transparency of its members' policies, and undertaken a wide-reaching program to improve public understanding of its own policies and operations and to seek feedback from the public.[13] As part of this effort, the Fund has vastly increased the volume of material it releases to the public on both its surveillance and lending operations.[14] In addition, the increased transparency of members' policies has been matched by the provision of information about the Fund and a strengthening of the mechanisms to ensure its accountability.[15] Staff papers discussing key policy issues and summaries of Executive Board discussions of these papers are now published in many cases on the IMF's external website.

20. **Another major aspect of crisis prevention has involved strengthening financial sector surveillance.** The Financial Sector Assessment Program (FSAP), established as a joint World Bank-IMF program, is deepening the analysis of countries' financial sectors and

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[11] *Assessing the Implementation of Standards—An IMF Review of Experience and Next Steps*, IMF Public Information Notice 01/17 (3/5/01).

[12] *Standards and Codes: A Tool for Growth and Financial Stability*, Remarks by IMF Managing Director Horst Köhler to the IMF/World Bank Conference on International Standards and Codes, Washington, D.C. (3/7/01).

[13] See *IMF Reviews the Experience with the Publication of Staff Reports and Takes Decisions to Enhance the Transparency of the Fund's Operations and the Policies of its Members*, Public Information Notice No. 01/3 (1/12/01).

[14] In the area of IMF surveillance of member countries' economies, Public Information Notices (PINs) that summarize the IMF Executive Board's assessment of each country's situation were published for over three-quarters of the Fund membership in 2000, and 75 members agreed to the publication of their Article IV reports between June 1999 and end-July 2001. Regarding IMF lending operations, press releases following Executive Board consideration of members' requests and reviews, as well as authorities' policy intention documents, are released on a systematic basis, and staff reports on Fund-supported programs are now published by the IMF on a voluntary basis (since January 2001, 14 members have agreed to the publication of such reports).

[15] Also, the results of almost all external and internal evaluations of IMF activities and programs conducted in recent years have been released. Finally, an independent Evaluation Office (EVO), to complement the Fund's existing review and evaluation procedures, is now operational.

vulnerabilities, and benefits from the expert support from various cooperating institutions including central banks, supervisory agencies, other institutions, and standard-setters. In December 2000, it was agreed that the FSAP would continue at an intensity of up to 24 country assessments per year. At the IMF, Financial Sector Stability Assessments (FSSAs), reports that are derived from the discussion of FSAP findings, are the preferred instrument for strengthened monitoring of financial systems as part of Fund surveillance. Since December 2000, FSSAs can be published on a voluntary basis.[16]

21. **Information on the comparative participation of APEC members and other country groupings in the crisis prevention initiatives discussed above is provided in Table 3. Most APEC members are SDDS subscribers and have published PINs.** Many APEC members have published Article IV staff reports and have participated in a ROSC, and a few have participated or committed to participate in the FSAP.

22. **APEC Ministers urged the IMF together with relevant international bodies to make concrete progress in its plans of action to conduct assessments of offshore financial centers' (OFCs) compliance with relevant international standards.** The Fund is extending its financial sector work to engage constructively with offshore financial centers (OFCs) and promote their voluntary assessments.[17] Concretely, as of June 2001, information-gathering missions to 19 OFCs had been conducted. All of these jurisdictions have endorsed the aims of the Fund's initiative, notably of raising OFC supervisory standards to international levels and increasing the flow of statistics.[18]

23. **In April 2001, agreement was reached on the role of the Fund and the Bank in the global efforts to fight money laundering.**[19] Key ways in which the Fund could participate in these efforts, within its core areas of competence and consistent with its mandate, include: intensifying its focus on anti-money laundering elements in all relevant supervisory principles; working more closely with major international anti-money laundering groups; increasing the provision of technical assistance; including anti-money laundering concerns in its surveillance and other operational activities when macroeconomically relevant; and undertaking additional studies and publicizing the importance of countries acting to protect themselves against money laundering. Furthermore, work is underway on a methodology to enhance the assessment of financial standards relevant for countering money laundering, and Fund assessments of anti-money laundering (AML) issues on a pilot basis in selected FSAP cases have begun. Fund and Bank staff are also working with the FATF to

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[16] As of mid-July 2001, three FSSAs had been published on the IMF's external website.

[17] See *IMF Board Reviews Issues Surrounding Work on Offshore Financial Centers*, IMF News Brief No. 00/62 (7/26/01); and *Offshore Financial Centers (OFCs): Note for the IMF Executive Board* (6/29/01).

[18] It is expected that the Fund will have completed about 14 OFC assessments by the end of 2001.

[19] *IMF Executive Board Discusses Money Laundering*, IMF Public Information Notice 01/41 (4/29/01).

determine how the FATF 40 recommendations could be adapted and made operational for the Fund's work.

24. **As part of its stronger focus on crisis prevention, the Fund is continuing its work on capital account liberalization.** One of the key lessons drawn from recent crises is the need for proper sequencing of this process. The IMF sponsored a seminar in July 2001 examining the recent experience of members in liberalizing their capital accounts in a way that does not threaten financial sector stability. The discussion at the seminar will help inform ongoing efforts to develop an operational concept, including practical suggestions on sequencing capital account liberalization and financial sector development.

25. **The Fund's contacts with and surveillance of international capital markets have also been enhanced by the formation of the Capital Markets Consultative Group (CMCG) in the summer of 2000.** The CMCG, which brings together senior private sector market participants in an informal forum to discuss financial sector issues of mutual interest with the Fund, held its most recent meeting in May 2001.[20] A working group of the CMCG was formed in late 2000 to address the issues of relations between sovereign debtors and the investors and creditors who lend to them. The report, which was discussed at the May 2001 CMCG meeting, includes recommendations to help member countries to establish Investor Relations Programs (IRPs).[21]

B. Crisis Resolution and Private Sector Involvement

26. **As underscored by APEC Finance Ministers in September 2000, private sector involvement is at the core of the new international financial architecture, and remains a major challenge.** On July 26, 2001, the Fund held a small seminar on PSI in the resolution of crises. Seminar participants agreed that the limited availability of official financing made some form of private sector involvement essential to crisis resolution. In general, they agreed on the need for more clarity on a PSI framework that would be applied uniformly across countries. In cases where a member's financing requirements are moderate—or where needs are large but the member has good prospects for regaining market access in the near future—strong adjustment policies with official financial support should catalyze private sector involvement. In other cases, where an early restoration of market access on terms consistent with medium-term viability is not foreseen or when a member has an unsustainable debt burden, a more concerted approach may be necessary, including standstills in extreme circumstances. Nevertheless, within this general framework, there were differences in views among participants regarding how soon a member should reach for more concerted solutions, the tools and effectiveness of intermediate forms of PSI, and the trade-off between a rules-

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[20] See *A Public-Private Partnership for Financial Stability*, Address by Horst Köhler, Managing Director of the IMF, at the Institute for International Finance (5/31/01).

[21] See *Investor Relations Programs: Report of the Capital Markets Consultative Group (CMCG) Working Group on Creditor-Debtor Relations* (6/15/01).

based and a discretionary approach to determining access limits, including the circumstances under which the exceptional clause on access could be invoked.

27. **At the IMF, experience has been gained in implementing the framework for the involvement of the private sector in crisis resolution that was endorsed by the International Monetary and Financial Committee at the 2000 Bank-Fund Annual Meetings in Prague.**[22] There have been two principal strands to the Fund's work in this area in the past year. First, the framework has been further developed as it relates to the restructuring of international sovereign bonds and corporate workouts. Second, the framework has been applied to major emerging market members facing financial crises, such as Argentina and Turkey. In early 2001, the Fund reviewed recent experience gained with the restructuring of international sovereign bonds, and gave preliminary consideration to a private sector proposal concerning procedures for bond restructuring. In the summer of 2001, the Fund will also examine further the issues of the treatment of the claims of the private sector and Paris Club creditors and the prospects for countries regaining access to capital markets. A summary report of the work to date and outstanding issues on private sector involvement will be prepared for the September 2001 IMFC meeting. Subsequently, a proposal on a balance sheet framework for considering private sector involvement will also be considered by the Fund Board.

C. Reform of the Fund: Access, Conditionality, and Ownership

28. **As part of the reform of the international financial architecture, the Fund continues to reform itself.** Last year saw the review and streamlining of Fund financial facilities. Notably, the use of the Contingent Credit Lines (CCL), a precautionary facility designed to assist member countries with strong economic policies and sound financial systems that are seeking to resist contagion from disturbances in global capital markets, was made more attractive to members.[23]

29. **The Fund has initiated a process of review of Fund conditionality, to make its assistance more effective and program ownership stronger.**[24] In April 2001, the IMFC endorsed the principle that a more focused and parsimonious application of conditionality is envisaged for structural reforms that are relevant—but not critical—to a program's macroeconomic objectives.[25] The Fund has already been streamlining its conditionality, exercising judgment on a case-by-case basis. In July 2001, it took stock of the initial

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[22] See *Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund* (9/24/00).

[23] IMF Factsheet *The IMF's Contingent Credit Lines* (June 2001).

[24] An Interim Guidance Note on streamlining structural conditionality was issued by the Managing Director in September 2000. It is available at http://www.imf.org/external/np/pdr/cond/2001/eng/overview/index.htm.

[25] See *Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund* (4/29/01).

experience, examined issues involved in coordinating conditionality with the World Bank, and summarized the feedback received in external consultations. There is already evidence of more focused conditionality and a smaller number of conditions in recent PRGF programs, though the evidence for middle-income countries is less conclusive. Furthermore, it is too early to draw strong conclusions, since streamlining is not just about the number and focus of conditions, but also about their effectiveness. It was agreed that the discussion and feedback from case-by-case assessments of new Fund-supported programs would continue to be a key instrument for refocusing the scope and detail of Fund conditionality, and to discuss the role played by the World Bank in each case.

30. **Lessons are also being drawn from seminars with policy makers, academics, and non-governmental organizations, who may have different perspectives on conditionality, as well as from public comments that have been solicited by the Fund.** Seminars were held in Berlin (June 2001), Tokyo and London (July 2001). The Tokyo seminar, for example, drew largely on the experience accumulated with conditionality in the Asia-Pacific region. In September 2001, the Managing Director will report on this process to the IMFC.

IV. THE MULTILATERAL DEVELOPMENT BANKS

31. **The Multilateral Development Banks (MDBs) are key contributors to the "development pillar" of the reform of the international financial architecture.** The G-7 Finance Ministers recently reaffirmed their view that the MDBs' operations should concentrate on core social and human investment (in particular health and education), enhancing productivity growth, and raising income per capita and that "economic growth is the primary determinant of a country's ability to raise incomes and reduce poverty and inequality."[26]

32. **The G-7 Finance Ministers stated that a more selective approach needs to be adopted by the MDBs on the basis of their respective comparative advantages and by better developing synergies and complementarities, pointing to recent important steps in this direction, such as the World Bank Comprehensive Development Framework (CDF) and the increase in country-owned development strategies, such as PRSPs.** The G-7 Finance Ministers also reaffirmed that MDB reform should focus on the areas of good governance in borrower countries, pricing issues, global public goods and financial sector reform, while improving the coordination among them and strengthening their internal governance.

33. **The G-7 Finance Ministers stated that the need for the MDBs to focus on operations targeted at poverty reduction, to be selective in countries with access to private capital, and to enhance the development impact of the resources available calls for a thorough review of the MDBs' lending instruments and pricing policies.** They

[26] See the G-7 Finance Ministers Statement and the Report *Strengthening the International Financial System and the Multilateral Development Banks* (7/7/01) at http://www.g7-2001.org/en/roma/home.htm.

noted the current discussions at the Asian Development Bank on the introduction of more favorable terms on Ordinary Capital Resources (OCR) loans targeted to poverty and the World Bank's current review exercise on International Development Association (IDA) pricing.

V. Regional Cooperation

34. **Regional fora have become increasingly effective in promoting the exchange of information among countries and in helping persuade policy makers to take into account potential spillover effects and contagion in their policy decisions.** They are an important complement to international financial institutions. In East and Southeast Asia, in particular, substantial efforts have been made in recent years to step up regional cooperation to promote financial stability, notably following the onset of the Asian crisis. These efforts have encompassed mechanisms to strengthen regional surveillance and financing arrangements that would supplement existing multilateral facilities.

A. Manila Framework Group (MFG)

35. **The MFG was created in November 1997 to provide a basis for intensive and high-level surveillance and dialogue among participants, help identify potential risks to growth and financial stability, advise on appropriate policy responses to reduce such risks, and undertake initiatives to enhance economic and technical cooperation, particularly in strengthening domestic financial systems and regulatory capacities.** In 1997, the MFG also agreed on the need for a cooperative financing arrangement in the region, under which participants could provide supplemental financial resources for IMF-supported programs, in consultation with the IMF and on a case-by-case basis.

36. **Since its creation, the MFG has held regular semi-annual meetings. At its eighth meeting in March 2001, participants concluded that the MFG had proved a useful forum for regional cooperation and surveillance and agreed to maintain the function of the group.** At that time, though recognizing that the adequacy of financing facilities for the region had been greatly improved by the increase in Fund quotas, the creation of the IMF's Supplemental Reserve Facility and the Contingent Credit Lines, and the development of complementary regional financing arrangements, MFG participants also agreed to explore in detail the modalities of an MFG financing arrangement. A draft of the report on modalities of a MFG financing arrangement that is being prepared by a Task Force was circulated for comments to MFG members and observers, including the IMF, in July 2001.

B. The New Miyazawa Initiative

37. **In October 1998, the Japanese government established the New Miyazawa Initiative to assist Asian countries further in overcoming their economic difficulties and to contribute to the stability of regional and international financial markets.** The Japanese authorities announced that US$15 billion would be available for medium- to long-term capital needs, such as development projects, and another US$15 billion for short-term

financing needs, such as the facilitation of trade finance either directly or through co-financing with multilateral development banks.[27] Agreements have been reached between Japan and a number of countries on medium- and long-term loans under this initiative, and several swap arrangements have been put in place.

C. ASEAN/ASEAN+3 [28]

38. **Apart from the MFG, ASEAN countries established the ASEAN Surveillance Process in October 1998.** The objective was to strengthen cooperation among members by exchanging information about regional economic and financial developments, providing an early warning system and a peer review process, highlighting policy options and encouraging actions to prevent crises; and monitoring global economic and financial developments. Under this process, ASEAN finance ministers have conducted semi-annual peer reviews, based on reports prepared by the ASEAN Secretariat with technical support from the Asian Development Bank.

D. The Chiang-Mai Initiative (CMI)

39. **In May 2000, the ASEAN+3 finance ministers met in Chiang Mai, Thailand, and launched an initiative to strengthen the existing cooperative financing arrangements among the monetary authorities of their countries.** A framework on the design of such arrangements became effective in April 2001, comprising two components.

40. **The first is a network of bilateral swap and repurchase agreements between member countries.** Swap arrangements are intended to provide short-term financial assistance to a country in need of balance of payments or short-term liquidity support, and to be complementary and supplementary to IMF facilities. Authorities of the ASEAN+3 have agreed to review the main principles of the bilateral swap arrangements under the CMI after three years. Repurchase agreements are intended to provide very short-term liquidity to a country in need of foreign exchange liquidity support.[29]

41. **The second component is an expanded ASEAN Swap Arrangement (ASA). The ASA was created in 1977 by the original five ASEAN members[30] to make available to each other a certain portion of their reserves on commercial terms.** At their April 2001 meeting, ASEAN finance ministers decided to enlarge the ASA to include all ten ASEAN countries and to increase its size to US$1 billion.

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[27] Short-term financial support would take the form of swap arrangements.

[28] ASEAN+3 is composed of ASEAN countries plus China, Japan, and Korea.

[29] Under these repurchase agreements, a country may exchange U.S. Treasury securities for U.S. dollars on commercial terms.

[30] Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The total value of that arrangement was US$100 million at its creation.

42. **Negotiations on bilateral financing arrangements under the CMI are currently under way and substantial agreement has been reached in several cases.** Also, a number of bilateral repurchase agreements have been in place among the ASEAN+3 countries since the mid-1990s.

VI. Poverty Reduction and Debt Relief

A. Poverty Reduction

43. **Poverty Reduction Strategy Papers (PRSPs) are the centerpiece of the strengthened focus on poverty reduction in the context of a growth-oriented strategy.** As of end-July 2001, the Executive Boards of the Fund and the Bank had considered 36 interim and 5 full PRSPs.[31] While the majority of interim and full PRSPs were prepared by African countries, the geographical spread has expanded over time to include 7 countries in Europe and Central Asia, 5 countries in Latin America and the Caribbean, 3 in East Asia and one in the Middle East. By the end of 2001, between 15 and 20 countries may complete their first full PRSP. Many of these countries are heavily indebted poor countries which reached their decision points under the HIPC Initiative in 2000 and will reach their completion points upon the fulfillment of agreed measures to reduce poverty and accelerate growth. Comprehensive reviews of the PRSP and the IMF's concessional lending facility, the Poverty Reduction and Growth Facility (PRGF), which will draw upon external inputs, have been launched. The review process will include an international conference in January 2002.

B. Debt Relief

44. **The endorsement of the enhanced framework for the HIPC Initiative in September 1999 established a framework for the provision of deeper, broader, and faster debt relief to the world's poorest, most indebted countries.** In September 2000, APEC Finance Ministers encouraged the international community, including heavily indebted countries themselves, to facilitate the effective implementation of this framework. As of end-July 2001, 23 countries had reached their decision point under the enhanced HIPC Initiative,[32] and a total of US$20.5 billion of debt relief in net present value terms (US$33.9 billion in nominal debt service relief) had been committed to these countries under the Initiative. Two of them, Uganda and Bolivia, had reached their completion points under the enhanced HIPC Initiative, at which point debt relief was delivered unconditionally; several more are expected to do so by the end of the year.

45. **The Fund-World Bank work program on debt relief for the coming months includes a Fund paper on completion point considerations, and joint Fund-Bank papers**

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[31] See IMF Factsheet *The IMF's Poverty Reduction and Growth Facility (PRGF)* (March 2001); and *Fighting Poverty and Strengthening Growth in Low-Income Countries:* A Memorandum to Members of the International Monetary and Financial Committee and Members of the Development Committee (3/20/01).

[32] See Fund-Bank staff paper *Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation* (4/20/01; revised 5/25/01).

on debt management in HIPCs and action plans to strengthen public expenditure management.

C. Official Development Assistance (ODA) and Market Access

46. **The effectiveness of efforts to combat poverty rests not only on support for the PRSP framework and debt relief, but also on the willingness of industrialized countries to deliver on their promises on official development assistance (ODA) and to open their markets to poor countries' exports.** The Fund and the Bank continue to urge their members to implement the target for the industrial countries to provide 0.7 percent of GNP in ODA, and to direct increased aid to the poorest nations.[33] It is also important for industrial countries to increase the access of poor countries to their markets, and the Fund has recommended that this should be an important focus for a new round of multilateral trade negotiations in the context of the World Trade Organization (WTO). Regional economic cooperation and integration is also a vehicle for poor countries to improve competitiveness and attractiveness to investors.

VII. Conclusion

47. **In response to the financial crises in the late 1990s, the international community has cooperated on a comprehensive framework for strengthening the international monetary system.** The focus of these efforts has been on crisis prevention and resolution, promoting international financial stability as a global public good, and actively pursuing efforts to make globalization work for the benefit of all. Contributions from national authorities, regional bodies such as APEC, the IMF and the World Bank, standard-setting bodies, the Financial Stability Forum, UN agencies, and a range of other agencies and for a have been extensive and crucial. These cooperative efforts are bearing fruit, and the community is moving from conceptualization and consensus building to concrete implementation of initiatives.

48. **Several lessons may be drawn from this review of progress in crisis prevention and reform of the international financial architecture:**

- Despite all that has been accomplished, full realization of the international community's objectives requires that efforts continue. Developments in the global economy and international financial markets over the past months underscore the importance of concentrating even more on crisis prevention.

- Regional cooperation has helped to support reform efforts. APEC member countries are well placed to contribute further to these various initiatives by leading by example.

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[33] See *A Global Partnership for African Economic Development*, address by the IMF's Managing Director to the United Nations Economic and Social Council (7/16/01). Only one fifth of total ODA flows now go to the least developed countries.

- The inclusion in the reform efforts of the "third pillar" of poverty reduction and debt relief makes it more likely that the efforts to strengthen the international monetary system will bring lasting benefits to all countries. Crisis prevention and resolution initiatives can help poor countries obtain the reliable access to investment capital from the rest of the world that is essential for poverty reduction. The expansion of international trade is another of the channels through which globalization has contributed to unprecedented world prosperity in our lifetimes, and more must be done to open market access to developing countries' exports.

- As reform initiatives progress, cooperation among different institutions and fora along with an appropriate division of labor become more important. This is particularly evident for the implementation of standard and codes, streamlined conditionality and poverty reduction. It is also crucial for the crisis prevention and resolution and financial sector initiatives described above, which are central to international stability and cannot be carried out by one institution single-handed.

Table 1. List of Standards and Codes Useful for Bank and Fund Operational Work

Group 1: Standards developed by the Fund

Data Dissemination: the Fund's *Special Data Dissemination Standard/General Data Dissemination System* (SDDS/GDDS).

Fiscal Transparency: the Fund's *Code of Good Practices on Fiscal Transparency.*

Monetary and Financial Policy Transparency: the Fund's *Code of Good Practices on Transparency in Monetary and Financial Policies* (usually assessed under the FSAP).

Group 2: Additional areas assessed under the FSAP

Banking Supervision: Basel Committee's *Core Principles for Effective Banking Supervision* (BCP) (usually assessed under the FSAP).

Securities: International Organization of Securities Commissions' (IOSCO) *Objectives and Principles for Securities Regulation.*

Insurance: International Association of Insurance Supervisors' (IAIS) *Insurance Supervisory Principles.*

Payments Systems: Committee on Payments and Settlements Systems' (CPSS) *Core Principles for Systemically Important Payments Systems.*

Group 3: Areas where the World Bank is in the lead

Corporate Governance: OECD *Principles of Corporate Governance.*

Accounting: International Accounting Standards Committee's *International Accounting Standards.*

Auditing: International Federation of Accountants' *International Standards on Auditing.*

Insolvency and creditor rights: The World Bank in collaboration with partner institutions, organizations, and individuals has drafted Principles and Guidelines for Effective Insolvency and Creditor Rights Systems.

Table 2. ROSC Modules Published by end-July 2001

Data Dissemination	Fiscal Transparency	Monetary and Financial Policy Transparency	Banking Supervision	Insurance Regulation	Securities Market Regulation	Payments Systems	Corporate Governance	Total
Albania Argentina Australia Bulgaria Chile Czech Republic Hong Kong SAR Hungary Mongolia Tunisia Uganda United Kingdom	Argentina Australia Azerbaijan Bulgaria Cameroon Czech Republic Estonia France Greece Hong Kong SAR Hungary India Korea Latvia Mozambique Pakistan Papua New Guinea Poland Sweden Tunisia Turkey Uganda Ukraine United Kingdom Uruguay	Argentina Australia Bulgaria Cameroon* Canada* Czech Republic* Estonia* France Hong Kong SAR Hungary* Iceland* Ireland* Poland* Tunisia Uganda United Kingdom	Algeria Argentina Australia Bulgaria Cameroon* Canada* Czech Republic* Estonia* Hong Kong SAR Hungary* Iceland* Ireland* Poland* Tunisia Uganda United Kingdom	Cameroon* Canada* Czech Republic* Estonia* Hungary* Iceland* Ireland* Poland*	Canada* Czech Republic* Estonia* Hungary* Iceland* Ireland* Poland*	Cameroon* Canada* Czech Republic* Estonia* Hungary* Iceland* Ireland* Poland*	Czech Republic* India Malaysia Poland Turkey Zimbabwe	
Total Completed								
15	**27**	**30**	**31**	**13**	**13**	**19**	**10**	**158**
Total Published								
12	**25**	**16**	**16**	**8**	**7**	**8**	**6**	**98**

Source: Staff estimates.

* Indicates the module was derived from an FSAP.

Table 3. Comparative Participation in Transparency and Standards and Codes Initiatives [34]

(As of end-July 2001)

	(1) Africa	(2) Asia	(3) Western Hemisphere	(4) Other Developing Countries	(5) Advanced Economies	(6) APEC [35]	(7) Total IMF Members
Number of Countries:	51	28	32	44	28	19	183
Initiatives:							
SDDS Subscriber							
Number of countries	2	5	8	10	23	13	48 [36]
Percentage	4%	18%	25%	23%	82%	68%	26%
Public Information Notices (PINs) Published							
Number of countries	42	20	31	29	28	18	150
Percentage	82%	71%	97%	66%	100%	95%	82%
Article IV Staff Reports Published							
Number of countries [37]	14	5	17	14	25	9	75
Percentage	27%	18%	53%	32%	89%	47%	41%
Completed FSAPs							
Number of countries	3	1	4	10	4	2	22
Percentage	6%	4%	13%	23%	14%	11%	12%
Completed ROSCs							
Number of countries [38]	8	6	8	21	11	10	54
Percentage	5%	4%	5%	14%	7%	6%	35%

Source: Staff estimates.

[34] This table does not include territories, special administered regions, and monetary unions.

[35] APEC has 21 members. However, one of these is not a member of the Fund (Taiwan Province of China). Another Hong Kong S.A.R. is a special administered region of China, which is an IMF member. This is why the first row shows 19 APEC members for the purposes of this table.

[36] This number does not include Hong Kong S.A.R., which has subscribed to the SDDS.

[37] This is the number of countries that have published at least one Article IV report.

[38] These data refer to the number of countries that have participated in at least one ROSC module, not the total number of modules completed, which may be found in Table 2.