The Nordic-Baltic Monetary and Financial Committee

Report on the Role of the International Monetary Fund

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Nordic-Baltic Report on the Role of the International Monetary Fund

This report reflects the views of the Nordic-Baltic Constituency (NBC) on recent and current main issues on the agenda of the International Monetary Fund (IMF). The constituency consists of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. The Nordic-Baltic Executive Director (ED) is responsible for presenting the constituency's view in the Executive Board of the IMF. The constituency holds 3.52 percent of the total voting power on the Board. The report has been endorsed by the Nordic-Baltic Monetary and Financial Committee (NBMFC) which periodically discusses whether the constituency's view on the major issues is in line with earlier stated views or whether adjustment is needed in order to reflect the changing focus of the international debate. As of the spring meeting 2004 of the International Monetary and Financial Committee (IMFC), reports from the Nordic-Baltic Office (NBO) in Washington are published biannually.

The report is centred on the following 9 issues: **Reform of the Role of the Fund, Surveillance, Private Sector Involvement in Crisis Resolution, Conditionality, Fund Facilities, Improving Co-operation between the IMF and World Bank, Representation and Constituency Structure and the Fund's Role in Low-Income Countries and finally the Independent Evaluation Office (IEO).** The main positions of the NBC conclude each section.

1. Reform of the Role of the Fund

The issue of radically changing the role of the Fund has lost importance during the last three years. Though the Fund is still exposed to criticism that it should do either more or less, there are no proposals on the table that are to be taken as seriously as was the case with the Meltzer[1] and the Goldstein Reports[2], which suggested substantially changing the IMF's role in the international financial system. A consensus appears to have emerged that the Fund should continue to concentrate its work on surveillance, financial assistance and technical assistance. The role of the Fund in member countries should be to address issues affecting macroeconomic development. Issues that can have macroeconomic importance vary enormously from country to country, and the Fund therefore has to be able to address a wide range of problems with macroeconomic relevance.

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1 Meltzer Report by the US International Financial Institution Advisory Commission (March 2000). One of the most radical proposals in this report – and the one that the NBC most vehemently objected to – was to substitute collateral for conditionality. According to the Meltzer Report the Fund should only give short-term unconditional loans against which the borrowing country could pledge collateral. Similarly the Fund should exclude the poorest developing countries from its membership because Fund lending to these countries – according to the Meltzer report – resembled that of development aid rather than balance-of-payments financing.

2 *Council of Foreign Relations*, Safeguarding Prosperity in a Global Financial System (the Goldstein Report, August 1999).

A consensus has emerged concerning the Fund's mandate and its ways of operating. The IMF has mitigated financial crises in its member countries and will continue to do so. Ideally the IMF should be able through its surveillance function to prevent crises from escalating. Several reforms to strengthen the role of the Fund have been implemented in areas of enhanced transparency, streamlined conditionality, data dissemination, assessment of financial vulnerabilities and financial system stability. Moreover, the IMF has become a "learning institution" more open to critical evaluations, including from the Independent Evaluation Office, and is trying more systematically to incorporate the lessons learned. The issue of radically changing the role of the IMF has lost prominence due to the fact that its role has been clarified and measures to enhance the effectiveness of the Fund are being implemented. The important work of constantly improving the functioning of the IMF should, however, continue. Presently an important discussion on the IMF's role in low-income countries is ongoing (see chapter 8).

2. Surveillance

Key lessons from the financial crises of recent years are that crisis prevention must stand at the centre of the Fund's mandate. The Fund's surveillance activities now focus more on the sources of crisis vulnerability and on strengthening crisis resilience. Furthermore, much of the recent discussions within the IMF about surveillance reflect concern about the Fund's ability in assisting countries to forestall crises or to adapt programs and policies to rapidly evolving circumstances. It is broadly recognized that effective surveillance periodically requires a reassessment from a fresh perspective that is fully cognizant of evolving economic and political circumstances.

Above all, crisis prevention has been strengthened through more transparency in economic data and policies. In this respect, there has been a veritable revolution since the financial crises of the late 1990s.

Major progress towards greater transparency has been achieved as can be seen by the increased number of countries that allow publication of Article IV reports[3], documents issued in connection with use of Fund resources, publication of summaries of Board discussions, etc. During 2003 the issue of publication was discussed in several instances. At these discussions the Nordic-Baltic chair called for strict rules on publication and for moving to a general rule of so-called *presumed publication* of Fund documents.

Earlier, many countries were very reluctant to move to a more regular publication of IMF's country reports due to fears of excessive market reactions. However, more and more countries now are in favour of a policy of presumed publication and in October 2003 a compromise was reached. The new rules on publication[4] are the following:

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[3] Article IV reports are the Fund's assessments of each member state's economy, and thus the most central part of surveillance.

[4] Formally adopted on October 8, 2003, see PIN no. 03/122 on October 10, 2003 available on http://www.imf.org.

- For documents issued in connection with **Use of Fund Resources and Post-Program Monitoring** a policy of voluntary but presumed publication took effect immediately after the Board had formally approved the decision in October 2003.
- For documents issued in connection **with exceptional access (lending above normal access limit[5]),** it was agreed that the Managing Director will not recommend Board approval of a program or completion of a review unless the authorities consent to the publication of the associated staff report. However, this decision will only be applied to arrangements approved on or after July 1, 2004 including augmentations of existing arrangements approved after this date.
- For **all Article IV staff reports**, Article IV Public Information Notices (PINs) and related Article IV papers (Selected Issues papers, Statistical Annexes and Appendices prepared as background material for Article IV consultations) a policy of voluntary but presumed publication will take effect, also from July 1, 2004.
- For reports and technical notes issued in connection with the Financial Sector Assessment Program (FSAP) a policy of voluntary but encouraged publication will continue.
- Similarly, it was decided to publish the Executive Board's agenda (at the same time as it is made available to the Executive Directors).

The *voluntary but presumed publication* policy is based on an expectation that the member country will communicate to the Fund its intention to allow publication. The decision formally states that publication would be expected to occur within 30 calendar days of the Board's consideration of the relevant papers. If the member has not decided on its publication intentions by the time of the Board meeting, the Secretary will remind the member to communicate them to the Fund within 30 calendar days following the Board meeting. In this context Executive Directors emphasized that presumption of publication requires the explicit consent of the members prior to publication; without this, the report would not be published.

While the compromise that has been struck will forestall for some time further proposals towards a tighter publication policy, it may be important that in the case of individual countries, the constituency continues to ensure adherence to the underlying principles of the new (general) rules.

There is, however, reason to caution against being overly satisfied with the steady increase in the "publication rate" (the number of countries allowing publication relative to the number of countries/reports discussed in the Board). There is evidence that in cases when publication really would have mattered Fund documents have in fact not been published or published with long delays.

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5 Normal access limits for Stand-By Arrangements are 100% of the country's quota annually and 300% cumulatively.

In June 2000 the NBMFC decided to consider "*publishing a summary of the views taken in the Board by the Nordic-Baltic representative*". Following the Nordic-Baltic Constituency's abstention in September 2003 over the Argentinean loan request, the NBMFC decided to allow publication of the position that the constituency has taken in cases of abstention. Each member in the constituency can choose its own method of publishing the constituency's position. As of the IMFC-meeting in spring 2004 reports from the Nordic-Baltic Office are regularly published.

The question of *separating the role of surveillance from that of program monitoring* has been brought up during discussions of surveillance. The Nordic-Baltic chair has taken the view that a formal separation may prove unnecessarily costly, but our chair has recognized that there are situations where there may be a conflict of interests, and that staff and management need to be aware of such potential frictions. The Nordic-Baltic Constituency has in general supported less ambitious measures to overcome the potential conflicts that may arise as a consequence of the dual role of the Fund. Our constituency has backed experiments with different mission chiefs for Article IV missions and programme review missions. Staff have also been encouraged to present the Board with alternative views concerning a given country's economic policy in order to give it the broadest possible list of policy options before deciding on a concrete policy recommendation.

The IMF is still being criticized for *being too reluctant to assess corruption, tax evasion and other governance issues* in its surveillance. Such an assessment by the IMF is naturally fraught with difficulties because it is likely to be viewed by governments as political interference. However, it may be important to stress that the Nordic-Baltic chair has lead the way in requesting the Fund to demonstrate uniformity in its treatment of member countries. Hence if these issues are dealt with in relation to low-income countries, the same principles should be applied when surveying middle-income countries and advanced economies.

So far the Fund, on the whole, seems to have found the right balance for governance issues in its surveillance, and should publicly demonstrated that it has no core role in assessing corruption, tax evasion and other governance problems. Such assessments must be guided by their macroeconomic relevance and be dealt with only if they have macroeconomic significance. On the other hand, Fund surveillance and programmes should be supportive of and coherent with the work of other institutions and the governments' own efforts to deal with these problems.

Concerning the Fund's *surveillance of financial sector issues*, enormous progress has been made and the methods chosen for conducting and disseminating the results of this surveillance seem to be taking on a satisfactory shape. The IMF's role in financial sector issues is of crucial importance in discussions of its future role. The Nordic-Baltic chair identifies an emerging consensus that the Fund needs to increase its work on financial sector issues.

Recent discussions of surveillance have shown support for increased emphasis on *stress-testing and debt sustainability analysis*. Our chair has supported these initiatives and has called for a more systematic inclusion of such analysis in Fund reports in the future. Similarly, the chair has called for staff to make better use of cross-country experiences in Fund surveillance. Such information greatly improves the quality and the impact of Fund analysis and policy recommendations.

The recent compromise on transparency was a step forward. The Office of the Nordic-Baltic Executive Director (NBO) and home authorities will remain vigilant and ensure that the tightening of publication policy is indeed applied to individual country cases; sometimes this may entail calling for a review by the Board. Countries' decisions not to publish or to make "objectionable deletions" should be challenged more often. The constituency has also suggested that the Annual Report should contain a list showing which countries publish and which countries object to publication of country reports.

The Nordic-Baltic Constituency should remain sceptical about formally separate surveillance and program monitoring. At the outset, however, the constituency is open for taking steps in this direction through the range of initiatives already under way, and for experimenting with new initiatives in individual cases which offer a more practical way of dealing with the problems of a possible conflict of interest between the two activities.

Experience of general public interest in IMF issues differs within the constituency. Reports from the Office of the Nordic-Baltic Executive Director prepared before IMFC meetings and Annual meetings are posted on the websites of the Nordic-Baltic IMF authorities (after some revisions, if necessary). It was recommended that the national authorities could in future publish views that have been adopted in the Board along similar lines to its action following the Argentinean loan request in September 2003. National authorities should focus on publishing the views taken by our chair but to steer clear of commenting on whether other countries in the constituency or other chairs in the Board have expressed dissenting views. When views are published it should also be important to inform the other countries in the constituency that such publication has taken place.

It is important to let Fund surveillance continue to focus on macroeconomic issues. However, in reality this rule may not provide so much guidance for surveillance in different countries with different levels of economic development and cultural differences.

3. Private Sector Involvement in Crisis Resolution

In June 2000 the NBMFC concluded that the constituency should no longer press for a formal rule-based solution to private sector involvement (PSI), but retain the position that PSI should be a regular feature in IMF programs[6]. However, the position of the constituency changed during 2002 after the First Deputy Managing Director Krueger had published her proposal: "A New Approach to Sovereign Debt Restructuring" in 2001. Together with other European countries, our constituency became a strong advocate of a statutory Sovereign Debt Restructuring Mechanism (SDRM), but in view of significant opposition to this proposal, statutory means to ensure private sector involvement in crisis resolution are de facto no longer being considered.

European countries continue to support a statutory approach and the Nordic-Baltic chair sustains the effort to keep the SDRM proposal on the table. However, the focus of the international debate has now changed towards developing non-statutory instruments to ensure private sector involvement, such as more widespread use of Collective Action Clauses (CACs) and designing a Code of Conduct for Sovereign Debt Restructuring.

So far discussions of these proposals have not identified any precise or formal role for the IMF. A working group comprising members from the G20 and private sector representatives, with the IMF as observer, is developing a Code of Conduct for debt restructuring. The "Quarles Group" within the G10 has published model Collective Action Clauses (CACs) for international bonds. CACs have since become standard in contracts for bonds issued under foreign jurisdiction and the IMF encourages members to include CACs in their bond contracts.

In the IMF, *new rules concerning exceptional access* were approved in March 2003[7]. The new rules call for earlier Board involvement and more extensive documentation whenever a loan request exceeding normal access limits is presented. The staff will have to demonstrate that the loan and the program will enable the country to achieve medium-term sustainability. Similarly, management have been encouraged to exercise restraint in their public announcements about programs involving large access before such a program (and loan) has been approved by the Board. So far the new procedures have only been used in practice in relation to Argentina and Brazil, which were discussed in the Board on July 30 and December 12, 2003 respectively. The experience remains limited, because both countries had already been granted exceptional access and the discussion concerned the possibilities for a successor arrangement. The true test of the new procedures will come if and when staff make a proposal for a new high-access loan to a country which does not already have a program with the Fund.

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[6] The warning against a formal rule-based PSI-solution was based on the experience from many failed attempts to standardize bankruptcy proceedings. EU countries started in 1983 to negotiate a Convention on Bankruptcy, but negotiations foundered. A proposal concerning a directive called "On the Reorganization and Winding up of Credit Institutions" was made by the Commission as early as 1985. It was not approved until 2001 in a much less ambitious form, building heavily on the principle of "home-country control" (EU countries mutually recognize supervision by the home country where a company is registered). This principle is not easily applied to IMF's 184 member states; if American investors have contracts stipulating that the legal venue for settling disputes with a sovereign issuer is the US they are unlikely to accept that such jurisdiction is transferred to the "home country" in the event of default.

[7] See Public Information Notice (PIN) No. 03/37 March 21, 2003 on http://www.imf.org

In addition, new rules concerning IMF *lending into arrears (LIA)* were approved in 2002[8]. If a new Code of Conduct is agreed upon, it will complement the LIA policy by providing guidelines for debt restructuring, but as a voluntary undertaking it will not be legally binding for member countries and thus cannot be included in Fund policy.

Previously, there was much interest in the issue of the *Fund as a Lender of Last Resort.* The focus seems now much more directed at access limits and whether and how the Fund should be a coordinator of assistance to crisis countries. On the latter question the Nordic-Baltic Constituency continues to be of the view that the IMF should have primary responsibility for handling international financial crises. Perhaps the best illustration of the latter view is that the constituency would be *against* crisis management being handled by individual large countries through bilateral loans, and the constituency cannot pinpoint other international organisations which are better placed to act as a lead coordinator of assistance in countries experiencing a crisis of confidence with very large capital outflows. On the other hand, when crises are caused by natural disasters or military conflict, the constituency would *not* expect the Fund to be the lead coordinator of assistance because it lacks the relevant expertise.

The constituency should continue to support a statutory Sovereign Debt Restructuring Mechanism. However, in view of the opposition of many countries, less ambitious approaches should also be supported such as establishing a voluntary Code of Conduct for Sovereign Debt Restructurings and further encouragement of the use of CACs.

The IMF should be cautious about taking a formal role in establishing the code as long as this is a voluntary approach. The IMF's engagement should resemble the Fund's approach to CAC analyses and recommendations. If such a voluntary code is established, observance of its rules could be made a formal part of Fund conditionality. Adherence to the code could be viewed as signalling that the debtor is negotiating in "good faith" with its creditors and as such be taken into consideration by the Fund.

More work could be done on setting up a voluntary debt resolution forum. It is too early to decide what role the Fund should have in relation to such a mechanism. The IMF would often be a creditor towards countries whose debt is being treated by a debt resolution forum. Because of this potential conflict of interest, the Fund's role in such a mechanism is not easy to define.

4. Conditionality

In June 2000 the NBMFC endorsed that the constituency should make a strong plea for simplifying conditionality and avoiding excessive detail in performance criteria, in order to make the Fund's work more efficient by

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[8] See Public Information Notice (PIN) No. 02/107 September 24, 2002 on http://www.imf.org

improved country ownership of economic programs. The last Board review of Fund conditionality in April 2002 [9] was able to report progress in the form of streamlining conditionality. Disagreement seems still to exist between industrial countries and some developing ones concerning the possible requirements entailed by "prior actions" (conditions which have to be fulfilled before a program can be approved by the Board). The proliferation of conditions in Fund programs has apparently been halted and awareness seems to be growing about the need to restrict the number of performance criteria and to ensure ownership of programs.

More flexibility also seems to have been achieved by allowing floating-tranche disbursements, i.e. where the program stipulates that money is released after a country has taken a particular and specific measure rather than being released at a particular point in time. Similarly, experiments are being made with conditionality expressed as targets to be achieved rather than stipulating a specific policy measure to be adopted ("outcome-based conditionality").

Progress has been achieved and the staff are more aware of the dangers of making conditionality "rule-based" (keeping the number of conditions fixed). The current guidelines appear to be working but more experience should be gained from program countries before the Nordic-Baltic Constituency can assess whether the current guidelines are appropriate and are being implemented.

5. Fund Facilities

In January 2003 it was decided to tighten access policy by requiring more extensive and timelier information to be provided to the Board before a program involving exceptional access can be put on its agenda for approval[10]. It was also decided to lengthen the maturity of the Supplemental Reserve Facility (SRF) by 6 months with respect to the point in time where a country was expected to start its repayment, and by 12 months as to when it was under the obligation to do so. The Nordic-Baltic Constituency has been highly sceptical about blending of facilities in cases of lending above normal access limits, since the constituency believes that when exceptional access is granted, incentives for early repayment should be reinforced in order to safeguard Fund resources and secure their revolving character. The extension of the maturity of the SRF facility should be seen as an attempt to prevent similar situations where the need to blend facilities would allow countries to circumvent the conditionality and the higher charges which use of the SRF facility implies.

The problem did not lie in Fund facilities per se but rather in the application of access limits associated with them. The application of these new rules will need to be followed closely.

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[9] See Public Information Notice (PIN) No. 02/42 April 19, 2002 on http: //www.imf.org
[10] See Public Information Notice (PIN) No. 03/37 March 21, 2003 on http://www.imf.org

Since the creation of the Contingent Credit Line (CCL), no member country has shown great interest in using it. The NBC had expressed strong scepticism about the CCL facility. The constituency warned against the pitfalls of such a facility, i.e. circumvention of conditionality, its potential claim on a large part of the Fund's resources, etc. Other constituencies in the IMF Executive Board have shared this reservation, and after reviewing the facility during 2003 the Board decided to let it expire in November 2003[11].

The Nordic-Baltic Constituency has reacted against what it has seen as a violation of agreed rules by abstaining, which is a very legitimate way of showing that rules should be adhered to. Of course there are many ways to safeguard the integrity of the Board other than by abstention, e.g. direct high-level contacts with the Managing Director will most certainly have a considerable effect. Some members of the Nordic-Baltic Constituency found that it should consider voting against proposed programs that seriously violate the rules. Thereby, the constituency would take a clear position and signal strong discontent.

6. Improving Co-operation between the IMF and the World Bank

Co-operation between the IMF and the World Bank has improved. The Fund has increased its surveillance of financial sector issues enormously, making some duplication of work unavoidable. Co-operation between the two institutions seems to be developing broadly satisfactorily and there are no major cases of either conflicting advice or severe duplication of effort between them.

Co-operation between the World Bank and the IMF seemed to work satisfactorily but the issue should be under close monitoring.

7. Representation and Constituency Structure

This is a topic that is widely discussed and there are pressures on the European Union Member Countries to consolidate their representation in order to accommodate more African chairs and to create better possibilities for increased representation of some Asian countries. Similarly, in the discussions by the Convention of the Future of Europe, the question was raised whether Europe could strengthen its influence if European (EU or euro) countries decided to have unified representation. Efforts to consolidate the number of European chairs date from far back and the NBMFC has discussed the issue previously.

The question most relevant to the countries in the Nordic-Baltic Constituency will be that of the future EU representation. The text of the proposal by the Convention on changes to the EU Treaty has been attached as annex 1. The proposal would enable euro area countries to make decisions concerning unified representation in the international financial institutions. Accord-

[11] See Public Information Notice (PIN) No. 03/146 December 19, 2003 on http://www.imf.org

ing to this *proposal*, only euro countries can decide on unified representation. It may be important to point out that this would only be an enabling clause in the EU Treaty. Another important point to note is that the existing treaty already enables European Union Member Countries to decide to have unified representation if they so desire. The Convention's proposal for an enabling clause should therefore be seen as an attempt to add political impetus to these euro region aspirations.

It should be added that the issues of representation and constituency structure are highly sensitive and have a direct bearing on how our own constituency works and operates.

The Monterrey consensus adopted by the international community in 2002 calls for measures to *improve representation and influence of developing countries* and countries in transition in international financial institutions. In the Fund (and in the World Bank) the Nordic-Baltic Constituency has supported an increase in basic votes (the number of votes which are given to each member country and which do not depend on the size of its quota). In addition, the Nordic-Baltic Constituency has supported the decision to allow an increase in staff of African chairs, and various measures to improve the quality of developing countries' representation.

In the Fund the issue of future European representation may also emerge indirectly, during discussions of new quota formulas. European countries are indirectly being asked to accept a decrease in their relative quota share.[12] It is fair to observe that interest in new quota formulas and in a general quota increase (or adjustment) is waning, and the constituency's earlier position that any revision of quota formulas must give weight to the countries' ability to contribute to Fund financing can be upheld.

The time does not seem ripe for formulating a common Nordic-Baltic view on the future of the Fund's constituency structure. The issue of how to make the EU countries' representation more influential has to be balanced against the loss of the national right to make decisions. In addition, unified representation may imply time-consuming procedures before a common EU position can be presented. Consideration should also be given to how Fund governance may change by having two constituencies of a dominant size. This might polarize decision-making in the Board.

It remains important to uphold the constituency's view that the ability of countries to contribute to Fund financing, and their economic size, should continue to be the most important factors determining quota size and thereby their influence on Fund decisions. The constituency supports an increase in basic votes as a means to increase, in particular, the relative influence of small developing countries. On the issue of improving the capacity of developing countries to express their views in the Board, more experi-

[12] See the Staff paper. Quota Distribution-Selected Issues (SM/03/255). Minutes from the discussion in the Board Thursday July 31,2003, can be found in NBM-262/08-01-03.

ence should be gained from the measures taken so far. Similarly, it has been pointed out that developing and emerging market countries already hold about half of the seats in the Board, which actually exceeds their combined quota share.

8. The Role of the Fund in Low-Income Member Countries

As implied above, the Nordic-Baltic Constituency has opposed radical changes in the Fund's role in the poorest countries. The constituency continues to voice its preferences for keeping the financing of concessional facilities separate from the use of the Fund's general resources. In its involvement in these countries, the Fund seems to have struck the right balance between its core role of helping them to achieve macroeconomic and financial stability, and responsiveness to special problems such as clearing arrears, providing emergency assistance, etc.

The Fund is working closely with the World Bank on establishing poverty reduction and growth programs for low-income countries. Of course, the Fund will constantly be accused of having a too narrow focus in its work with developing countries. However, the choice of a fairly narrow focus on macroeconomics is deliberate. New demands on the Fund, to enhance ownership of programs and ensure that the programs effectively are pro-poor, are apparently being fulfilled, albeit gradually.

Important work is being undertaken to establish an improved strategy for the Fund's role in low-income countries in the medium-term as well.[13] This includes some evolution of the Fund's existing instruments to secure their adequacy for dealing with the challenges facing low-income countries in various stages of development. The Fund should remain engaged in assisting low-income countries over the medium term without necessarily providing financing. However, the Fund needs to be more selective about the circumstances in which it engages in a program relationship, particularly in cases where a lack of political commitment and capacity constraints set limits on what can be achieved. The constituency also strongly supports work in defining the Fund's role in poor countries after they have received debt relief and perhaps achieved macroeconomic stability. Further definition of the Fund's role in countries experiencing external shocks will also need to be considered. The Fund should contribute to the attainment of the Millennium Development Goals by focusing on its core areas of competence. By promoting a stable macroeconomic and institutional framework for private investment and growth, low-income members eventually should be able to move to a point where they can rely predominantly on private sources of financing. In addition, the staff propose a firmer emphasis in their surveillance "to assess the implications of policies of the major economies for global economic growth and to encourage policy reforms in industrial countries, including trade policy and agricultural support, and in the provision of

[13] See Public Information Notice (PIN) No. 03/117 September 10, 2003 on http://www.imf.org

development assistance that are critical to the economic prospect of low-income countries." Indeed, it is repeatedly emphasized by Fund management that trade is an engine of growth, without which no real progress can be made in alleviating poverty. Hence the true test for industrial countries' willingness to combat poverty lies in their readiness to open their own markets to developing countries' exports

The IMF, together with the World Bank, is gradually becoming the most important forum for discussions of what can be called debt relief methodology, or rather HIPC methodology. Again this role was not intended ex ante when the Heavily Indebted Poor Country (HIPC) Debt Initiative was set up in 1996, but gradually – and because there were no other institutions to do the job – the IMF, the World Bank and the Paris Club have become the most important fora for negotiating changes to the rules guiding debt relief.

IMF provides input to concrete discussions in the Paris Club. It has been made an indispensable requirement for a country seeking an agreement on debt restructuring from Paris Club creditors to have a program with the IMF. Similarly, it is in the IMF and the World Bank that the most important discussions take place concerning rules for "topping up" (the extra debt relief a country might need at completion point to make its debt sustainable) and for the treatment of so-called "additional efforts" (whereby certain donor countries give 100 per cent debt relief on certain loans to HIPC-eligible countries). Such discussions are very technical, but Fund and Bank staff provide indispensable input for them by supplying statistical estimates of the costs of the various options. There are no serious plans to change this very important role, and co-operation with the World Bank on these issues seems to be developing satisfactorily.

The Fund's role in low-income countries has on the whole developed satisfactorily. In this sphere the Fund has also defined its mandate more clearly with the traditional focus on fiscal, monetary, exchange rate policy and the need to strengthen the stability and soundness of financial systems. Continuing to establish a better defined role for the Fund in low-income countries after the HIPC initiative expires will be important. The Nordic-Baltic Constituency should moreover demonstrate its support for having Fund surveillance increasingly target the consequences that industrial countries' producer subsidies and trade policy have for developing countries.

There is no need to set up new institutions for discussing rules on debt relief and evaluating the costs and benefits of choosing different options. It is important for the IMF authorities to remain in close contact with development aid authorities and World Bank authorities to ensure consistency of the views expressed in these different fora.

9. Independent Evaluation Office (IEO)

The Independent Evaluation Office has commenced issuing reports on the Fund's record in handling its business[14]. The IEO will soon evaluate the Fund's role in Argentina, and judging from the suggested terms of reference this work will respond to the concern that the Fund be held accountable for its decisions and operations. On November 17, 2003, when the Board discussed the Fund's staff paper "Lessons from the Crisis in Argentina"[15], warnings were expressed that such deliberations must not pre-empt the conclusions to be drawn when the IEO's report is published.

The NBC considers the Independent Evaluation Office to have been successful in its efforts to improve the Fund's work and its observations have already spurred important discussion within the Fund.

ANNEX I: **Extract from the proposal on text to a revision of the European Treaty by the European Convention on the Future of Europe under the section "PROVISIONS SPECIFIC TO MEMBER STATES WHICH ARE PART OF THE EURO AREA"**

Article III-90

1. In order to secure the euro's place in the international monetary system, the Council of Ministers, on a proposal from the Commission and after consulting the European Central Bank, shall adopt a European decision establishing common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences.

2. For the measures referred to in paragraph 1, only members of the Council of Ministers representing Member States, which are part of the euro area shall vote. A qualified majority shall be defined as the majority of the votes of the representatives of the Member States, which are part of the euro area, representing at least three fifths of their population. Unanimity of those members of the Council of Ministers shall be required for an act requiring unanimity.

3. The Council of Ministers, on a proposal from the Commission, may adopt appropriate measures to ensure unified representation within the international financial institutions and conferences. The procedural provisions of paragraphs 1 and 2 shall apply.

[14] IEO evaluation reports can be found on http://www.imf.org/external/np/ieo/pap.asp
[15] See Public Information Notice (PIN) No. 04/26 March 24, 2004 on http://www.imf.org