United Nations

A/AC.253/9/Add.2

General Assembly

Distr.: General
16 March 1999

Original: English

Preparatory Committee for the Special Session of the General Assembly on the Implementation of the Outcome of the World Summit for Social Development and Further Initiatives
First session
New York, 17–28 May 1999
Items 3 and 4 of the provisional agenda*
Preliminary review and appraisal of the implementation of the outcome of the World Summit for Social Development
Consideration of further actions and initiatives to implement the commitments made at the Summit

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

Note by the Secretariat

Addendum

Contribution from the International Monetary Fund

The Secretariat circulates herewith for the information of the Preparatory Committee the attached report of the International Monetary Fund, which is available in English only.

* A/AC.253/5.

99-07649 (E) 140499

Annex

World Summit for Social Development: IMF progress report

Following the 1995 Copenhagen Declaration the IMF has further strengthened its approach to support for countries' efforts to accelerate social progress and poverty alleviation, and has sought to incorporate the major recommendations of UN global conferences into its policy dialogue with each member country. As part of its activities in Africa, the IMF has also been actively involved in the TICAD process including in the implementation of the Tokyo Agenda for Action adopted at TICAD II.

- The IMF's policy advice and assistance to help countries **establish macroeconomic stability and sustainable high growth**, in line with its mandate, 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 high inflation, and ensure lasting reductions in poverty over the long term. In its dialogue with countries, the IMF has also given increasing emphasis to reforms aimed at achieving **high-quality growth** which will contribute to raising living standards and poverty alleviation, in particular, by improving the quality of fiscal adjustment, governance, and labor market reform.

- IMF policy advice, financial and technical assistance has sought to **improve the quality of public expenditure** by shifting resources away from unproductive outlays, such as excessive military expenditure, to infrastructure, basic education and health care which build physical and human capital and thus enhance broad-based growth and equity, and to targeted poverty alleviation programs.

In developing countries with IMF-supported programs military expenditure fell, on average, by 2.5 percentage points of GDP between 1990-97, compared with 1.3 percentage points of GDP in developing countries without a IMF-supported program. This decline in military outlays has allowed social expenditure to expand—available data for 52 countries indicate that military spending fell by an average of 3.1 percentage points of total expenditure, while social expenditure increased on average by 1.2 percentage points. As regards social spending, on the basis of data for 65 countries with IMF-supported programs during 1986-87, spending on health and education has, on average, increased in relation to GDP by 0.3 percentage points and 0.2 percentage points, respectively, since the start of IMF-supported programs. In Africa, and countries with ESAF-supported programs, increases of about double these magnitudes have been recorded. These increases have been accompanied by improvements in most of the education and health indicators that have recently been identified by the OECD/DAC, UN, and the World Bank to assess performance.

As part of the IMF's support for social development and poverty alleviation, guidelines have recently been given to IMF staff with the purpose of strengthening the monitoring of social expenditures and social output indicators within the context of the IMF's surveillance activities and support for countries' adjustment programs.

- The IMF's policy advice and technical assistance has increasingly focussed on incorporating **cost-effective and financially viable social safety nets** into countries' reform programs. These safety nets may include subsidies or cash compensation targeted at vulnerable groups, improved distribution of eventual commodities, such as medicine, temporary price controls on some essential commodities, severance pay and retraining for retrenched public sector employees, employment through public works programs, and appropriate unemployment insurance and pension schemes.

- In its work in the social sector areas, the IMF relies on the expertise of other institutions, including the World Bank, regional development banks, the UNDP, ILO, and other UN agencies and efforts have been made to strengthen collaboration. The Bank and Fund collaborate closely in the context of Public Expenditure Reviews and more recently, building upon a general review of World Bank-IMF collaboration in 1998, measures are underway to better integrate social sector reforms in the design of countries' adjustment and reform programs, as well as to coordinate technical assistance and policy advice, including in public sector work. Also, in late 1998, a pilot initiative to strengthen collaboration between the WHO and the IMF on health related issues in low-income countries was started.

- The IMF also has an interest in **income distribution** issues and that all members of society have an opportunity to share in the benefits of economic growth. Adjustment programs that are equitable and growth that is equitable are more likely to be sustainable and to reduce poverty. Reflecting these considerations, in June 1998, the IMF hosted a conference on economic policy and equity to discuss operational issues faced by governments seeking to formulate and implement equitable policies. The IMF's efforts to promote basic health and education will also indirectly contribute to improvements in equity.

- **Good governance** contributes to high-quality pro-poor growth and to social development. Policies that strengthen good governance can help to make adjustment and reform a participatory process in which stakeholders in society, including the poor, have a greater chance to express their concerns, needs, and join in a partnership. The IMF has sought through its advice and technical assistance to improve governance through, inter alia, greater transparency and accountability in the formulation of and implementation of all aspects of economic policy. This can contribute to greater equality of opportunity and access, and help eliminate the diversion of scarce public resources to fraudulent and corrupt activity. Most recently, in order to strengthen its attention to governance issues, the IMF issued a guidance note in 1997 on its role in this area.

- An important element of the IMF's mandate is to promote **high levels of employment**. High sustainable growth and labor market reform supports this goal. The IMF supports labor market policies that ensure labor market flexibility, and encourage training, retraining, and the mobility of workers within and between sectors and regions, supported by adequate unemployment benefits. The IMF also supports the core labor standards advocated by the ILO. In the area of labor market and related social policy reforms the IMF has intensified its collaboration with the ILO since 1995. Guidelines on collaboration with the ILO were issued to the IMF staff in 1996. Contact between staff at the country level has been made more systematic and further strengthened especially through resident representatives. Also, in 1996, several countries were selected as pilot cases for enhanced collaboration, and in 1998, Russia was added to the list of pilots. The IMF has also intensified collaboration at a general policy level, including through participation in conferences and seminars most recently in the high-level tripartite ILO meetings in Bangkok in 1997, in 1998, and 1999. Also in May 1998, the IMF organized a seminar with the ILO to improve IMF's staff understanding of core labor standards and the ILO's role in setting these standards and monitoring their implementation.

- In 1987, the IMF established the **Enhanced Structural Adjustment Facility** (ESAF) to provide concessional resources in support of low-income countries' adjustment and reform programs, including adequate social support. To date, 58 of the 79 eligible countries have used its resources for three-year adjustment program. Recent internal and external reviews of the ESAF found that most countries pursuing policy reforms with the support of the ESAF had materially strengthened their economies in the past 10 years, and that these gains have helped improved growth and living standards. The recent reviews of the ESAF emphasized the need for more World Bank support for structural reforms and social sector issues, particularly for undertaking more systematic assessments of the impact of ESAF-supported program reforms on vulnerable groups. To this end, and in particular to better integrate social sector issues in ESAF-supported programs, a pilot program was launched in 1996 for 6 countries (Cameroon, Ethiopia, Nicaragua, Tajikistan, Vietnam, and Zimbabwe) for greater collaboration between the two institutions.

Reflecting the success of the ESAF in supporting countries' reform efforts, in 1996 it was decided that this facility should remain available to the Fund's poorest members on a sustained basis. Since then, efforts have been underway to secure the needed financing, much of which has already been pledged by IMF members.

- In 1996, the World Bank and IMF launched the **Heavily Indebted Poor Countries (HIPC) Initiative**. The objective of the Initiative is to reduce the external debt of the world's poorest, most heavily indebted countries, mostly in Africa, to sustainable levels. The 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 Initiative has focussed on ensuring that resources released through debt relief are used for productive outlays, in particular, for social sector and poverty alleviation programs. Considerable progress has been achieved since 1996. Twelve countries have been reviewed for HIPC assistance, US$6 billion of debt relief has been committed to seven countries (Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique, and Uganda), and assistance has been released to Uganda, and to Bolivia. In September 1998, the IMF and World Bank agreed to extend the deadline for countries to adopt IMF and World Bank-supported economic programs in order to enter into the HIPC process by two years to end-2000. Also, it was agreed that for post-conflict cases, performance under emergency assistance programs would be considered—on a case-by-case basis—as part of the first phase track record.

Some consider the HIPC Initiative should provide more debt relief to more countries, more quickly. In 1999, a review of the HIPC Initiative is being undertaken, including an examination of the effectiveness of the Initiative and whether it should be strengthened. The review will be based on a process of consultation, seeking the views of member countries, multilateral creditors, NGOs, religious groups, and other interested institutions, which has already begun with a request for written views and a series of seminars around the world. At the same time, the IMF is pressing ahead to secure the full financing of the cost of its participation in the HIPC Initiative.

- **Post-conflict countries** face particularly difficult challenges in trying to restore social order and economic growth. The IMF has contributed a wide range of support as part of concerted international efforts to assist post-conflict countries. In 1995, it was decided that the IMF could also provide financial support to post-conflict countries at a relatively early stage under its emerging assistance policy. Since then, such assistance has been provided to six countries: Albania, Bosnia-Herzegovina, Rwanda, Tajikistan, Republic of Congo, and Sierra Leone, most of which have subsequently progressed to regular IMF arrangements. The IMF is currently exploring new approaches to assist post-conflict countries more quickly and effectively.