

# VII

## INTERNATIONAL FINANCIAL ORGANIZATIONS

The financial crises that marked the final years of the 1990s made it possible to identify the points of greatest fragility in the international financial system, some of which are a consequence of the growing magnitude and importance of transborder capital flows. At the same time, it became clear that the process of globalization implies both significant risks and important benefits. In this context, international financial organizations have focused their attention on understanding the recent crises and on discussing and implementing mechanisms designed to prevent and resolve situations of turbulence in the world's financial markets.

One should note that there has been an increasing degree of collaboration among the major multilateral financial organizations and other international institutions and associations that deal with institutional and structural aspects, particularly those of a systemic nature that impact the operations of national and world financial markets. Based on the theme of the Strengthening of the Architecture of the International Monetary System, these organizations – and particularly the IMF – have targeted their efforts at achieving greater security and stability in the international financial system. Thus, they have sought to act in five major areas: i) Transparency; ii) Financial Sector Strengthening; iii) Private Sector Participation; iv) Alteration of IMF Financial Services and other systemic questions; v) Elaboration and Evaluation of Internationally Accepted Codes and Standards.

With respect to the last item, the underlying notion is that compliance with international standards and good practice codes is a condition of essential importance to the efficient operation of national and international financial systems. Currently, more than sixty standards and codes are under discussion, including the Special Data Dissemination Standard (SDDS), the General Data Dissemination System (GDDS), the Code of Good Practices for Fiscal Transparency, the Good Practice Code for Monetary and Financial Policy Transparency, all of which were elaborated by the IMF and the Core Principles for Effective Banking Supervision, put forward by the Basel Committee/BIS.

The Debt Initiative for the Heavily Indebted Poor Countries (HIPC) gained considerable momentum in 2000 once the proposal on accelerating implementation and broadening the scope of the process of granting poorer countries relief from

their debt burdens had been approved. The fundamental objective of the Initiative is to ensure debt sustainability to those low income countries that adopt adjustment and reform programs supported by the IMF or World Bank. To qualify for inclusion in the Initiative, the performance of the structural and macroeconomic policies of these countries, as well as their social development criteria are subjected to intense monitoring.

At the end of 2000, 22 countries out of an overall total of 41 had reached the point of decision or, in more specific terms, were considered eligible to receive the benefits of the Initiative, representing a total of approximately US\$34 billion in external debt relief. Of these 22 nations, 18 are located in Africa and 4 in Latin America (Nicaragua, Bolivia, Guyana and Honduras).

In light of the new reality generated by Provisional Measure 1,980-26, which determined that responsibility for payments of quotas and shares of the international financial organizations in which Brazil participates was to be transferred from Banco Central to the federal government, it was decided that, with the exception of the IMF and BIS, which were to remain under Banco Central responsibility, institutional relations with these organizations would also be transferred, effective as of January 2001.

### **International Monetary Fund (IMF)**

At the end of 2000, the IMF concluded 55 years of activity with membership of 183 nations, compared to an initial total of just 35. In the same time span, the capital of the institution expanded from a level of US\$7.6 billion to approximately US\$300 billion or SDR 212 billion, of which Brazil holds SDR 3 billion.

In the course of 2000, IMF efforts were concentrated on strengthening the architecture of the international monetary and financial systems, particularly as regards the reviewing of the internal policies and procedures of the Institution in the pursuit of enhanced operational transparency and efficacy.

In this framework, the Independent Evaluation Office was created with the objective of providing systematic evaluation of the organization's programs, policies and procedures. At the same time, the institution adopted a plan aimed at achieving stricter monitoring of the use of the Fund's resources by borrower countries.

The February review of the Fund's various facilities resulted in a decision to eliminate the Buffer Stock Credit Facility and the contingency element of the Contingent Credit Lines Facility. In March/April, the Currency Stabilization Fund and the Credit Facility for Debt and Debt Service Reduction Operations were also

eliminated.

At the end of the year, important changes were introduced into the various financial assistance modalities. Measures were approved with the objective of stimulating anticipated payments of loans granted and discouraging the excessive use of IMF resources. The recently created Contingent Credit Line (CCL) facility became a more attractive option for member countries as a result of lower loan costs. This facility has become a readily available defense mechanism for countries with solid economic policies that have been adversely impacted by events in other nations.

In terms of the dissemination of economic data, the GDDS, which was established in 1997, moved into the operational stage while the scope of the SDDS was revised and greater detail was required in the data supplied. Up to 12.31.2000, 47 countries had subscribed to the SDDS. In December 1998, at the time of the financial assistance agreement, Brazil committed itself to adhere to the SDDS and adjust its information flow to the standards suggested by the Fund.

At the close of 2000, the Fund had 58 ongoing financial assistance programs, corresponding to two more than in the previous year. Of this total, 15 are Stand-by Agreements, in a total value of SDR 26.9 billion (approximately US\$35.2 billion), nine were Extended Fund Facilities (EFF), with a total value of SDR 9.1 billion (approximately US\$11.6 billion) and 34 were Poverty Reduction and Growth Facilities (PRGF), with a commitment of SDR 3.1 billion (US\$4.1 billion).

With regard to the loans granted to the Program of Financial Assistance to Brazil, no drawdowns were made in 2000. Amortizations involving IMF financial assistance totaled an amount equivalent to US\$6.8 billion, fully paying the share that refers to the Supplemental Reserve Facility. Of the total amount withdrawn under the terms of the Credit Tranche, the pending balance was equivalent to US\$1.8 billion on 12.31.2000, with amortizations beginning in 2002.

Assistance to the HIPC Initiative is provided through the PRGF, which is also used to foster the social agenda jointly with the World Bank. Up to 12.31.2000, approximately SDR 1.3 billion (equivalent to US\$1.7 billion) of this mechanism had been committed and SDR 452 million, or about US\$589 million, had been disbursed.

### **Bank for International Settlements (BIS)**

Founded in January 20, 1930, BIS has played an important role in fostering cooperation among central banks. In the wake of recent financial crises, the

institution has assumed a position of leadership in efforts to preserve financial stability and improve risk management at the institutional and market levels.

In 2000, understood as the fiscal period extending from April 1, 1999 to March 31, 2000 (FY2000), BIS had 49 associated central banks aside from the European Central Bank. The BIS executive board is composed of the central bank governors from Belgium, Canada, United States, France, Germany, Italy, Japan, Holland, Sweden, Switzerland and the United Kingdom, plus directors designated from six of these countries. Brazil became a member of BIS in 1997 following congressional ratification of the membership agreement.

In FY2000, BIS assets came to a total of US\$147 billion, of which US\$6.7 billion involved the institution's own resources (capital and reserves). Authorized BIS capital corresponds to US\$2.9 billion divided into 600 thousand shares with 529,165 shares issued. The value of the paid-in capital came to US\$6.45 billion in FY2000.

In September, BIS announced its intention of repurchasing all of the organization's shares then in the hands of private investors. These shares represented approximately 13.73% of total nonvoting shares. The associated central banks hold 86.27% of total shares and 100% of the voting shares.

Among other functions, BIS plays the role of Collateral Agent and Trustee. In this context, it is responsible for the custody of the United States Treasury bonds (zero coupon bonds) offered by Brazil as guaranty for the Bradies. In this case, BIS acts as Collateral Agent and is also responsible for the bonds issued by Peru and the Côte d'Ivoire. The organization also plays a highly important role as trustee in several other cases.

In its specific field of activity, BIS is an entity charged with mobilizing resources. Working with 19 central banks, BIS coordinated part of the financial assistance provided to Brazil in 1998 in the amount of US\$13.28 billion. The totality of the loan was paid on April 12, 2000. Other short-term credit lines were extended to other BIS stockholders with or without collateral.

BIS contributed to the process of cooperation among central banks by organizing regular meetings among G-10 members, the major emerging economies and the institution's own stockholders. The Bank acts as the Secretariat and coordinates the various committees that submit reports on their operations to the G-10 member countries. The Central Bank Governance Steering Group was created and is composed of representatives of the central banks of the industrialized countries and emerging economies. This Group is responsible for coordinating the gathering and analysis of information on their activities.

The three committees established by the G-10 central banks and supported by the BIS are denominated the Committee on Bank Supervision, the Committee on the Global Financial System and the Committee on Payments and Settlement Systems and participate in the Financial Stability Forum which was established in 1999 by the G-7 countries and central banks with the objective of ensuring financial stability through surveillance and cooperation in financial supervision.

The Committee on Bank Supervision is focused on discussing specific bank supervision problems, the responsibility of national authorities in the supervision of the domestic banking system and bank supervision standards directly related to the question of the solvency of these institutions.

The Basel Accord, which has been in a process of reformulation since 1999, is targeted at adapting already existent regulations to new market instruments and their risks. Approximately 130 countries have already adopted the principles of the Accord. One should stress that the new design of the Accord is based on the broadening of the minimum required capital standards, review of the control of the capital adequacy and internal processes of the institution in question, as well as effective use of discipline on the market.

The Committee on the Global Financial System monitors the vulnerability of the financial market in the industrialized countries and emerging economies. The major topics discussed by the Committee are the liquidity of the bond or securities market, market behavior in times of crisis, the transparency of the information provided to participants and improvements in the statistics elaborated by BIS. In 1999, the Committee made specific recommendations to the bond market regarding strategies on the management of debt, taxation, transparency, negotiating rules and the infrastructure and development of the repurchase agreement, futures and options markets. The Committee also works in harmony with IMF's SDDS, detailing the process to be followed in completing the template.

The Committee on Payments and Settlement Systems is charged with fostering the security of payments and settlement systems through the strengthening of market infrastructure and, consequently, reducing systemic risk. It operates in a partnership with the International Organization of Securities Commissions (IOSCO).

### **World Bank Group**

This is a development institution that has the primary mission of combating poverty and improving the quality of life of the populations of the developing nations. The IBRD, the International Development Association (IDA), the International Financial Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the

International Centre for Settlement of Investment Disputes (ICSID) constitute what is known as the World Bank Group. These institutions have specific profiles and objectives that range from poverty reduction to improving the quality of life in the more needy regions of the world, extending into implementation of incentives to private investment in developing country through loans, guaranties, consulting services and technical assistance.

The IBRD was founded in 1945 with the primary functions of fostering sustainable development of the economies of the developing nations and contributing to reductions in poverty levels. To achieve these objectives, it provides loans, guaranties and technical assistance to its 181 member countries, while also acting as the major catalyst in efforts to mobilize funding from other sources.

In fiscal year 2000 (FY2000), which extends from 7.1.1999 to 6.30.2000, 97 new financing operations in a total amount of US\$10.9 billion were approved for 41 countries, corresponding to a cutback of 50.8% in relation to the previous fiscal year's total. To a great extent, this decrease reflected greater stability in emerging markets. The largest financing volumes were granted to Turkey (US\$1.7 billion), China (US\$1.6 billion) and Brazil (US\$1.3 billion).

Disbursements in the period totaled US\$13.2 billion, corresponding to a reduction of 27.1% compared to the previous fiscal year.

Up to the end of FY2000, Brazil had accumulated loans worth US\$28.7 billion in 256 projects. The current loan portfolio for Brazil entails US\$10.2 billion of which US\$2.6 billion have yet to be disbursed.

In FY2000, Brazil received approval for eight projects in a total value of US\$1.3 billion, corresponding to 33.3% of the value made available to Latin American and the Caribbean. Of this total, two projects in a total amount of US\$505.1 million each were targeted at the administrative reform and the second stage of the Social Security Reform Program.

At the same time, disbursements came to US\$1.6 billion for projects in the execution stage. Amortizations came to US\$934 million and interest payments added up to US\$477 million, resulting in a net transfer to Brazil of US\$229 million.

The IDA was created in 1960 and now has 161 member countries. It is the major provider of zero interest loans for the poorer countries with annual per capita income levels below US\$925 in fiscal year 1997. In fiscal year 2000, 81 countries were considered apt to receive these resources from the IDA.

In FY2000, the IDA carried out 126 new operations in 52 countries in a total value of US\$4.4 billion, corresponding to a reduction of 36% in comparison to the amount approved in the previous period.

On 6.30.2000, the loan portfolio came to US\$104.8 billion, of which US\$18.9 billion have not yet been disbursed.

The HIPC Trust Fund, which is administered by IDA without any fee charges, is the major instrument used by the World Bank and other multilateral creditors to participate in the HIPC Initiative, making it possible to reduce the debts of the eligible countries. This instrument facilitates coordinated action among multilateral creditors in the framework of the Initiative, makes it possible to satisfy the funding or financial policy restrictions of creditors and aids in concentrating these resources in providing debt relief to the countries in question.

Up to the end of 2000, the World Bank worked proactively in order to implement the expanded HIPC Initiative. The HIPC Trust Fund obtained a total of US\$2.5 billion in bilateral contributions from approximately 20 countries and US\$1.3 billion from the World Bank.

The IFC was founded in 1956 and currently has 174 member countries. Its objective is to foster economic growth in the developing countries through investments in the private sector, mobilize resources on international financial markets, and provide technical assistance to the public and private sectors. Here, one should note that the Corporation operates as a private institution and, therefore, is profit-oriented.

FY2000 witnessed approval of 259 projects, equivalent to US\$5.8 billion, of which US\$3.5 billion originated in the institution's own funds and US\$2.3 billion in other sources. Brazil holds 1.67% of the capital of the Institution and, up to 6.30.2000, had a total of 127 projects approved in an accumulated total value of US\$4.9 billion.

MIGA was created in 1988 and has 152 member countries. Its major objective is to work with governments in attracting direct investments to the developing countries, providing guaranties to foreign investors against noncommercial risks. Aside from this, MIGA supplies technical assistance to its members and seeks to facilitate dissemination of information on investment opportunities.

In FY2000, the Agency issued 53 guaranty agreements with total coverage of US\$1.6 billion, benefiting 26 developing countries. The total amount of the Agency's coverage expanded by 19% to a level of US\$4.4 billion. Latin America and the Caribbean have received the greatest benefit from MIGA guaranties, absorbing a full 51% of its portfolio. The three principal countries have been Argentina, Brazil

and Peru. In the period under consideration, approximately US\$410 million in guaranties to Brasil were approved. The country's gross participation in the Agency's portfolio came to 14.5%, followed by Argentina (9.9%), Peru (7.6%), Russia (6.2%) and Turkey (5.2%).

ICSID was created in October 1966 and has 131 members. Its primary objective is to ensure the flow of external investments to the developing countries through arbitration and reconciliation instruments. The total number of cases registered up to FY2000 came to 75, of which 12 occurred in the most recent fiscal year. The process of Brazil's adhesion to ICSID is under analysis at the Office of the Attorney General of the National Treasury.

### **Inter-American Development Bank Group (IDB)**

In 2000, the IDB approved a total of US\$5.3 billion in new loans, of which 42% were targeted at projects in the social area. In 1994, at the time of the 8<sup>th</sup> General Increase in Resources, it was determined that loans for purposes of poverty relief, sewage and water supply infrastructure improvements, education and health should account for 40% of the resources made available to member countries and 50% of the number of operations approved as of that year.

In 2000, the IDB disbursed approximately US\$7.4 billion, of which US\$7 billion represented Ordinary Capital (OC) and US\$385.7 million corresponded to the Special Operations Fund (SOF), an IDB mechanism that provides soft loans to just five less developed countries in Latin America and the Caribbean. Aside from these amounts, disbursements came to US\$209.2 million for other funds that are also subject to IDB management. A major share of the record disbursement volume is explained by emergency financing provided by the organization. The principal characteristic of these operations is rapid disbursement after approval.

With regard to Brazil, the organization approved 12 financing operations in 2000 based on OC resources in a total amount of US\$767.2 million. Of this total, US\$346 million referred to private sector loans with no government guaranties. A total of US\$3.2 million in nonreimbursable technical cooperation was also approved. No operations under the heading of the SOF were approved for Brazil since the country is not eligible for this type of operation. However, disbursements to ongoing projects came to a total of US\$20.1 million. Total disbursements to Brazil came to US\$2.8 billion, of which US\$1.9 billion correspond to IDB participation in the Financial Assistance Program, with a total value of US\$4.5 billion. Amortizations and debt charges came to a total of US\$267.1 million and US\$752.3 million, respectively. At the end of the period, the country registered a positive cash flow of approximately US\$1.6 billion.



With respect to IDB participation in the HIPC Initiative, the total updated cost for the institution was estimated at US\$1.1 billion for 1999. Of this total, US\$800 million originated in the organization's own resources and US\$320 million were obtained from donor sources.

The Inter-American Investment Corporation (IIC), which is affiliated to the IDB, was founded in 1984 and has the objective of fostering economic development in Latin America and the Caribbean through capital investments, loans and consulting services to small and medium companies in the region.

In 2000, 19 operations were approved in a total amount of US\$143 million, of which US\$107 million (74.8%) were utilized in long-term financing and US\$36 million (25.2%) in equity investments (stock participation). In the specific case of Brazil, two long-term financing operations worth US\$1.5 million were approved.

The Multilateral Investment Fund (MIF) is an autonomous fund managed by the IDB. It was founded in 1993 and has the objective of accelerating development of the private sector and aiding in strengthening the climate for private investments in the developing countries of Latin America and the Caribbean.

MIF's assistance is mainly nonreimbursable and is channeled primarily to small businesses. In 2000, financing was approved for 80 projects in a total amount of US\$115 million, of which US\$11.4 million involving 5 projects were channeled to Brazil.

### **African Development Bank Group (ADB/ADF)**

The ADB/ADF Group is composed of the African Development Bank (ADB), the African Development Fund (ADF), the organization responsible for providing soft loans in the region, and the Nigerian Trust Fund (NTF). The Group is an instrument of essential importance to eradicating poverty and fostering growth in Africa.

The ADB is headquartered in Abidjan, capital of the Côte d'Ivoire, and had 77 member countries in 2000. Of this total, 53 are regional members and 24 are nonregional. In the year under consideration, the ADB approved new loans worth SDR 860.6 million, equivalent to US\$1.1 billion. Disbursements came to SDR 395 million, or approximately US\$514.6 million.

The ADF now has 79 members, of which 53 are regional and 26 are nonregional. The Fund provides financing at zero interest to low income regional members and its activities focus on reducing poverty levels. Loans approved by the Fund in 2000 came to a total of SDR 1.3 billion, which is equivalent to US\$1.6 billion. The total amount disbursed added up to SDR 281.1 million or about US\$366.2 million.

Just as in the case of other institutions, the ADB/ADF Group participates in the HIPC Initiative. Of the various regional organizations, the ADB/ADF has the largest number of member countries eligible to receive assistance from the Initiative (31 countries). Considering their economic-financial situations, all of these countries are exclusive ADF borrowers. The cost of the Initiative for the Group is estimated at US\$2 billion, including US\$370 million in internal funds and the remainder in donor contributions.

### **International Fund for Agricultural Development (IFAD)**

This Fund is a specialized United Nation's entity headquartered in Rome. It has the objective of mobilizing and supplying financial and technical assistance under special conditions to the agricultural development of the target countries, with priority to regions marked by extreme poverty.

In 2000, the organization, which has a total of 161 member countries, approved 28 new loan operations in a total amount of US\$408 million. Parallel to these, total nonreimbursable technical cooperation agreements came to US\$36 million.

On 7.31.2000, the Institution's 5<sup>th</sup> General Replenishment of Resources was approved (IFAD-V). A capital increase in new resources worth US\$460 million was approved, including US\$360 million from the developed countries and US\$100 million from the developing nations. In the current arrangement, the Brazilian contribution to IFAD-V will be US\$8 million.

IFAD's participation in the Expanded HIPC Initiative was approved at the 23<sup>rd</sup> Session of the Assembly of Governors in the month of February. Preliminary estimates indicate that the organization's contribution to debt relief for the eligible countries will be US\$336 million. The Fund has already committed itself to providing US\$25 million to the original Initiative and an additional US\$331 million are to be committed in the 2000-2003 period.

The resources required for participation in the HIPC Initiative are to originate in the reduction of the current level of commitment to loan and donation operations, in additional contributions from donors and revision of the reserve policy as applied to the contributions of past increases in resources.

**Financial Fund for the Development of the River Plate Basin (Fonplata)**

Fonplata was founded in 1974 with the objective of meeting the financing needs of its members in fostering the economic development and physical integration of the River Plate Basin and its adjoining area of influence. The member countries are Argentina, Bolivia, Brazil, Paraguay and Uruguay.

Brazilian and Argentine participation in the Fund's capital came to individual levels of 33.33% each, while Bolivia, Paraguay and Uruguay accounted for 11.11% each. Subscribed capital on 12.31.2000 came to US\$308 million, with paid-in capital of US\$268 million and outstanding capital of US\$40 million.

Since the start of its activities up to 12.31.2000, 54 loans were approved in a total value of US\$383.3 million. Brazil contracted 4 loans with a total value of US\$37 million.

**Andean Development Corporation (ADC)**

The ADC is a financial institution created in 1970 by the Andean Community of Nations (former Andean Pact) with the objective of supporting both regional integration and development in the member countries.

The Corporation is composed of regional members (Bolivia, Colombia, Ecuador, Peru and Venezuela) and has the stock participation of extra-regional countries (Brazil, Chile, Jamaica, Mexico, Panama, Paraguay and Trinidad-Tobago) and 22 private banks from the Andean region.

Brazil has been an extra-regional member since 1995 when it subscribed 2,700 series C shares in a total amount of US\$25 million, fully paid-in. The Brazilian portfolio in operations with the Institution totals US\$337 million involving paving of the BR-174 highway (US\$86 million), the Brazil-Bolivia Pipeline Energy Integration Project (US\$165 million) and the Brazil-Venezuela Electricity Interconnection Project (US\$86 million). To these operations, one should also add a total of US\$381.3 million in short-term loans to the private sector.

At the end of 1998, Brazil agreed to increase its participation in the AFC by subscribing an additional 2,512 shares in the amount of approximately US\$25 million. With this, the margins for the contracting of new loans will be increased, thus contributing to the process of economic development, building closer relations with the countries on the nation's northern border and adding to the momentum of the regional integration movement. Ratification of this increase is under analysis at the National Congress.