

INTERNATIONAL MONETARY FUND (IMF)

The International Monetary Fund is the multilateral organisation charged with encouraging global financial stability. As such, it conducts surveillance (monitoring economic and financial developments, and providing policy advice to prevent crises), lends to countries with balance of payments difficulties, to provide temporary financing and to support policies aimed at correcting the underlying problems (and reduce poverty in low-income countries), and provides technical assistance and training.

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

	Number of Arrangements	Amounts committed (millions of USD)
PRGF	29	2,529
Stand-By	6	11,953
EFF	1	14

Source: 2007 data from IMF (2007d)

Note: SDR 1 = 1.52 USD as of April 30, 2007.

Since 2000, IMF PRGF commitments have declined in absolute amount – down from SDR 3,516 m (USD 5,344 m) (IMF, 2006a, p133). The volume of new commitments has fallen every year since 2003 (USD 62,756 million in 2003 compared to \$US 600 m in 2007). Note: All figures describe activities in the fiscal year ending April 30.

1.2. Future Quantity Intent

The IMF has no pre-defined quantity intent. Its lending commitments will depend on the countries which have needs, and the size of their quotas (see section 3.2 below), and its disbursements on country fulfilment of disbursement conditionalities. There is however a ceiling as to how much the IMF can lend under PRGF arrangements. This ceiling is linked to the PRGF trust fund. New PRGF/ESF loan commitments are not expected to exceed USD 1.2 billion per annum. The IMF is currently seeking USD 152 million from donors to cover the expected costs of emergency assistance through 2014 (IMF, 2008a).

2) KEY AGENCIES/MECHANISMS

2.1 Facilities

Poverty Reduction and Growth Facility (PRGF)

The PRGF is the IMF's main lending facility for low-income countries. This concessional lending mechanism replaced the Enhanced Structural Adjustment Facility (ESAF) in 1999, in order to make poverty reduction and growth the explicit foundation of lending operations in low-income countries (IMF, 2006b).

Economic Shocks Facility (ESF)

The ESF is a flexible mechanism established in 2005, on PRGF terms, to allow low-income (PRGF eligible) countries rapid access to IMF credit to smooth commodity price shocks or natural disasters that would otherwise impact balance of payments sustainability. The IMF acknowledges that shocks are likely to require more funding than would be available through the fund, and governments are encouraged to seek additional assistance. ESF assistance cannot be provided in conjunction with a PRGF, but access requires agreement on an economic programme as strong as that of a PRGF. As of December 2006 no country had applied for ESF support (IMF, 2006c).

Policy Support Instrument (PSI)

The Policy Support Instrument is an alternative to the PRGF. The PSI is intended for PRGF-eligible members that have maintained a stable macroeconomic environment in the recent past, and which do not require IMF resources (the PSI does not provide any funding). The Instrument facilitates access to the ESF, and provides a mechanism for interaction between the IMF and the member country for surveillance and signalling, which refers to monitoring macroeconomic and financial activities in member countries. Once approved by the IMF's Executive Board, the PSI signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies. Its conditionalities for a positive IMF report on progress are broadly similar to those which a PRGF agreement requires for lending (IMF, 2006d).

Emergency and Post-Conflict Assistance (EPCA)

The IMF also provides Emergency and Post-Conflict Assistance (EPCA) loans to low-income countries as part of a transition lending mechanism following natural disasters or conflicts, and before policies are felt to be strong enough for a PRGF. It also establishes "Staff-Monitored Programmes" with countries which have moved beyond post-conflict or emergency phases but still do not have PRGF-strength policies (IMF, 2005a).

Other

The IMF also provides much larger amounts of funding to middle-income countries through Stand-By Arrangements (SBA) and Extended Fund Facility (EFF) loans, as well as loans to compensate commodity price falls through the Compensatory Financing Facility (IMF, 2006e).

2.2 Key Policies and Documents*Annual Report of the Executive Board*

The 2007 Annual Report reflects the Fund's thematic roles of surveillance, lending and technical assistance. It provides the Fund's observations on the state of the world economy, including perceived areas of economic risk. In addition to presenting the Fund's activities over the past fiscal year, the 2007 report evaluates the implementation of the Medium-Term Strategy (MTS), specifically with regard to internal governance and management reforms (IMF, 2007d).

Medium-Term Strategy

The Medium-Term Strategy (MTS) makes seven recommendations, each of which have been approved. They include improving the Fund's surveillance capabilities, focusing on countries' external stability, reforming the quotas and voting system to provide a greater voice to low-income countries, providing flexible and focused instruments to low-income countries, creating a medium-term budget, and developing a new business model that relies more on a steady source of income and less on interest from loans (IMF, 2005d; IMF, 2006h).

Financial Organization and Operations of the IMF

This 2001 document outlines the operations of the IMF as a financial institution. It discusses the roles of the various subgroups within the General Department, SDR department, as well as the various mechanisms for providing financial assistance for Low-Income Members (IMF, 2001).

2005 Review of 2002 conditionality guidelines:

This review reflects what the Fund sees as some of the successes achieved since the adoption of new conditionality guidelines in 2002. These successes include a shift of conditionality away from non-core conditions to those focused on economic management for PRGF countries, improved clarity in program-related conditions, and fewer interruptions in fund-supported programs. On the other hand, it acknowledges that the number of structural conditions has not declined, and that a good deal more streamlining of conditionality can take place (IMF, 2005b).

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA**3.1. Recipient Countries****Ten Largest Borrowers from PRGF (all figures in Millions of SDR)**

Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	Total Credit Outstanding
<i>Poverty Reduction and Growth Facility</i>					
Liberia	03/14/08	3/13/11	239	32	207
Moldova	05/05/06	05/04/09	111	46	85
Afghanistan	06/26/06	06/25/09	81	34	47
Haiti	11/20/06	11/19/09	74	30	43
Nicaragua	10/05/07	10/04/10	72	60	54
Congo, Rep. of	12/06/04	06/05/08	55	31	24
Madagascar	07/21/06	07/20/09	55	24	43
Guinea	12/21/07	12/20/10	48	41	39
Malawi	08/05/05	08/04/08	38	5	31
Central Afr. Rep	12/22/06	12/21/09	36	16	29

Source: IMF (2008b)

As of March 2008, there are no borrowers using the ESF facility.

3.2. Allocation Criteria

3.2.1. Pre-selection criteria

Eligibility for concessional financing under the PRGF, ESF and EPCA is determined by the IMF's assessment of a country's per capita income, drawing on the cut-off point for eligibility to IDA concessional lending. This cut-off point is currently 2005 per capita GNI of USD 1,025. There are therefore 78 countries eligible for PRGF funds as of October 2007 (IMF, 2007e).

Blended arrangements combine financing from the PRGF Trust and the non-concessional General Resources Account (GRA) for Low-Income member countries with higher income levels or non-concessional financing alternatives. *“Such arrangements help conserve scarce PRGF resources for those members that have limited access to non-concessional financing or for which only such financing is appropriate”* (IMF, 2004a). To be eligible for such arrangements, a country must (a) have a per capita income exceeding 75% of the prevailing IDA/PRGF GNI cut-off point, or (b) the member must have had a significant recent or prospective non-concessional borrowing from private capital markets or the ‘hard’ windows of official bilateral and multilateral lenders. *“If neither condition is met, there is a presumption of PRGF financing only”* (IMF, 2004a).

3.2.2. Allocation criteria:

The maximum amount which the IMF can commit to lend to any country in any one-year or multi-year arrangements, and the total amount outstanding at any stage are clearly determined in advance as a proportion of the country's IMF “quota” (financial contribution to the IMF). Each lending facility discussed above has agreed predefined limits, and though most also allow for exceptions these are rather rare (IMF, 2007b). See table below for the quota limits of each facility.

IMF LENDING ACCESS LIMITS				
	PRGF	ESF	EPCA	SBA
3-year limit	140%	Na**	Na**	Na**
Annual	90% to 25%*	25%	25%	100%
Exceptional limit	185%	Unspecified	50%	None listed
Cumulative limit	No cumulative limit	50%	50%	300%
* - access expected to decline with each successive facility – 90%, 65%, 55%, 45%, 35%, 25%				
** - not appropriate because facilities do not last 3-years				

Sources: IMF (2004b, 2006b, 2006c, 2006e and 2007d).

The actual amount committed also depends on the country's balance of payments needs, and the strength of its economic programme agreed to with the IMF. Disbursements are then released in phased (quarterly or semi-annual) instalments, with precise timing depending on whether the conditionality agreed as the basis for the loan is executed in a satisfactory way. In practice, in recent years, average annual PRGF access limits for first-time borrowers have varied between 75% and 90% of quota, and average SBA annual access limits have been between 40-50% of quota (IMF, 2001, p29).

4) AID POLICIES

4.1. Concessionalality

TERMS OF IMF CONCESSIONAL LOANS				
Facility	Interest	Grace	Maturity	Frequency
Emergency Assistance	0.5%*	0	3.25-5	Quarterly
Poverty Reduction and Growth Facility (PRGF); and Exogenous Shocks Facility (ESF)	0.5%	5.5	10	Semi-annually
* - subsidised down from IMF base rate for PRGF eligible countries depending on availability of subsidy resources.				

Source: IMF (2005a, 2006b and 2006c).

Under the terms outlined in the previous table, IMF loans score quite poorly on concessionalality compared to other donors (i.e. the Fund is a relatively expensive source of financing for LICs compared to the increasing grant element provided by other donors). This is borne out by the scores the IMF received on this indicator in the HIPC-CBP evaluation.

4.2. Types of Assistance

IMF assistance is specifically for balance of payments support. In addition to this, the IMF provides technical assistance, free of charge. The IMF does not lend for specific projects. In the countries where it was assessed for the HIPC-CBP evaluation (Malawi, Guyana and Gambia), the IMF's TA is considered as building capacity and well aligned with Government plans. Interestingly, the Rwanda country chapter from the Paris survey, notes that the Fund's TA is often quite ad hoc and as such is not always included in Government's plans or budgets. Paris Indicator 4 of the 2008 Paris survey indicates that all technical cooperation is coordinated with country programmes in Cambodia and Tanzania, and nearly all in Gabon (98%).

4.3. Channels of Assistance

IMF loans are always disbursed to the central bank, which is the borrower, and therefore IMF lending does not appear directly in the Government budget.

4.4. Sectors and Projects

There is no specific project or sector lending.

4.5. Flexibility

As the purpose of the IMF is to combat crises and shocks, in principle its lending is entirely designed to be flexible to combat shocks. The IMF's Exogenous Shocks Facility (ESF) specifically provides member countries with credit during shocks, and the EPCA facility provides assistance against natural disasters. However, given the relatively small size of its loans, their expensive terms compared to other financing sources for most low-income countries, and their restrictive conditionalities, in practice countries are often

reluctant to access especially ESF funds, making the IMF less flexible than some grant donors. This is borne out by the fact that no country has actually used the ESF so far (see section 2.1 above). The HIPC-CBP scores reflect this, with only Burundi, Malawi, Guyana and Mali considering IMF support to be flexible.

4.6. Predictability

IMF lending is in principle highly predictable. It agrees 3-year lending plans for PRGFs, and provides within-year annual disbursement schedules for all facilities. However, IMF assistance may be withdrawn if conditionalities are not met. If the breach of conditionalities is waived by the IMF Board then disbursements will be made on schedule. However for serious breaches, disbursements will be suspended. On occasion countries have been required to repay disbursements for misreporting data to the IMF. Indicator 7 of the Paris Survey shows best practice in Mauritania, Burundi and Niger where respectively 99%, 93% and 89% of the Fund's aid has been delivered on schedule.

4.7. Conditionality

IMF programmes negotiated with governments contain the following types of conditionalities:

- **Performance criteria (PCs)** are specific conditions that have to be met for the agreed amount of credit to be disbursed. There are two types: quantitative and structural.
 - *Quantitative* refer to macroeconomic policy variables such as international reserves, monetary and credit aggregates, fiscal balances, or external borrowing. For example, a program might include a minimum level of net international reserves, a maximum level of central bank net domestic assets, or a maximum level of government borrowing.
 - *Structural PCs* are structural measures that are critical to the success of the economic program. These vary widely across programs but could, for example, include specific measures to improve financial sector operations, reform social security systems, or restructure key sectors such as energy.
- Quantitative PCs may be supplemented with **indicative targets**. These are often set for the later months of a program, and are then turned into PCs, with appropriate modifications, as economic trends firm up.
- **Structural benchmarks** are also used, for measures that cannot be monitored objectively enough to be PCs, or for small steps in a critical reform process, that would not individually warrant an interruption of Fund financing.

Programmes are reviewed semi-annually and changed in light of new developments. Countries can request waivers for breached conditions which are often granted, especially if they have already taken offsetting measures.

Since 2002, the IMF has been trying to “streamline” its conditionality, by focussing on the Fund's core areas of expertise (monetary, balance of payments, financial sector, fiscal issues), and limiting conditions to measures that have a direct and critical impact on the program's macroeconomic objectives. As it has enhanced coordination with the World Bank, it has generally allowed the World Bank to apply conditionality instead in areas

such as trade and privatisation. Opinions on the IMF's degree of progress in reducing conditionality vary widely, with the IMF indicating major progress (IMF, 2005b), but borrowing countries and independent authors suggesting that it is very limited (see for example Martin and Bargawi, 2004), and that remaining conditions are if anything applied more strictly.

4.8. Policy Dialogue

The IMF plays the leading role in the macro-economic policy dialogue with a country. In principle all its programmes are supposed to be framed around the country's Poverty Reduction Strategy Paper (PRSP), prepared by the government with participation of civil society and other stakeholders. However, most independent sources indicate that the reverse is more true, with macro-economic frameworks for PRSPs coming largely from PRGFs, or PRSP ambitions being scaled back to fit PRGF macro-economic programmes. Citing the Fund's own Independent Evaluation Office: "*Success in embedding the PRGF in the overall strategy for growth and poverty reduction has been limited in most cases (..)*" (IEO, 2004, p4). More recently, the IMF has indicated more willingness to be more engaged with the PRSP process (e.g. IMF, 2007c).

Through its "signalling role", the IMF has historically also been the key advisor to donors on whether to disburse budget support (depending on whether a country is implementing its conditions), but some donors (eg Sweden, the UK) are now taking a more independent view on these issues, with disbursements at least not completely tied anymore to the IMF's go-ahead. For those countries who retain a more formal link between the IMF program and disbursement, there can be a timing issue when a PRGF staff report is planned to be discussed at Board for approval, with other donors waiting for the Fund's 'go-ahead' and their disbursements pending. In this case, and to improve on predictability, Fund staff now regularly issues "letters of assessment" on an ad hoc basis such that other donors can make disbursements without a formal agreement by the IMF Board on program performance. For an example for Rwanda see IMF (2006g).

5) AID PROCEDURES

5.1 Conditions Precedent

The IMF does not insist on any of the normal conditions precedent (legal opinions, bank accounts, counterpart funds, PIUs). However, its programmes do contain "economic conditions precedent." These are known as **prior actions** - measures that a country agrees to take *before* the Fund's Executive Board approves a loan or completes a review. These could include, for example, adjustment of the exchange rate, elimination of price controls, or formal approval of a government budget. In addition, before access to the PRGF the member country must prepare and submit a letter of intent, which describes the policies that a country intends to implement. These measures can sometimes be burdensome (according to the HIPC-CBP evaluation least so in Malawi, which gives the maximum score), and cause delays in disbursement of Fund money (again according to HIPC-CBP least so in Guyana, Malawi, Sao Tome, Uganda and Zambia, again all giving the maximum score, i.e. least delay possible).

5.2 Disbursement Methods

All IMF disbursements are made in cash direct to the central bank.

5.3 Disbursement Procedures

The IMF does not require any separate reports or audits of its expenditure of its funds. Formally speaking, IMF money does not show up in the budget, as it is disbursed to the Central Bank. However, with the exception of its Technical Assistance (see section 4.2.) it is well accounted for.

5.4 Procurement Procedures

IMF funds are not used for direct procurement of goods and services, so there are no specific separate procedures and thus also no aid-tying. The only tying issue is that Fund consultants would have to be nationals from IMF member countries. Resources to pay for IMF TA come from a centrally maintained fund.

5.5 Coordination

The IMF plays an important role in coordination meetings, providing advice to all donors on a recipient government's (macro)economic policy. It also cooperates closely with the World Bank in designing PRGF-supported programs, and conditionality. However, IMF missions and reports remain entirely separate from those of other donors, and it plays a very limited role in discussions/negotiations on donor harmonisation, because most of the aspects of procedures which apply to other donors are not relevant to its operations.

More recently, the IMF has been more pro-active in donor harmonisation and alignment, especially regarding so-called multi-donor budget support groups, where it almost always has observer status. In these fora, it regularly makes the case for more predictable aid flows. Similarly, budget support donors have been increasingly invited to attend IMF-Government discussions as observers, mostly at the insistence of recipient governments (e.g. Rwanda).

According to the HIPC-CBP evaluation, the IMF scores best on harmonisation issues (mainly joint analytical work and joint missions) in Sierra Leone which gives the maximum score. The results from the Paris survey indicate that the Fund's missions are coordinated (indicator 10a) in half of the surveyed countries, including Bolivia, Central African Republic and Ukraine where all missions are conducted jointly.. As for joint analytical work (Paris indicator 10b), most progress has been made regarding joint work on Public Financial Management issues, e.g. the PEFA initiative (see PEFA, 2005). Best practice can be found in Bolivia (100%), Tanzania and Ukraine (67%).

Key Sources *(All internet sources were accessed in October 2008_*

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