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The IMF's concessional lending policy: situation and outlook

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The International Monetary Fund (IMF, or the Fund) has been uninterruptedly providing concessional financing to low-income countries since 1976. This financing has been channelled practically in its entirety under the same financial instrument, namely a voluntary participation trust fund that is separate from IMF finances, but managed by the latter. The programmes financed with these resources have progressively focused on macroeconomic stabilisation, the signalling of reforms and attracting other aid, as part of a poverty-reduction strategy that should be led by the borrower country. In 2009, the IMF overhauled its concessional financing policy: it incorporated new credit facilities, with a similar design to that of its ordinary facilities; it boosted the blending of concessional and ordinary resources for those countries with access to both types of financing; and it staggered the cost of the financing against a background of very low interest rates. Throughout 2018, the IMF will again review the concessional financing toolkit available to low-income countries, based on the experience built up in recent years. This article provides a framework for assessing the ongoing review.

THE IMF'S CONCESSIONAL LENDING POLICY: SITUATION AND OUTLOOK

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Introduction

The IMF is made up of 189 member countries. Close to 40% of these are low-income countries, whose population – at the aggregate level – accounts for 15% of the population of all the members. The voting power of these countries in the IMF's decision-making bodies is 5%, and their relative economic weight, measured by GDP, around 2.5% of the total (see Table 1).

In addition to performing its traditional functions[1], the IMF engages in specific activities aimed at the group of low-income countries. In particular, since 1976 it has financed programmes for growth and poverty-reduction under concessional arrangements (with subsidised interest rates, and relatively long grace periods and maturities); since 1996 it has forgiven the debt incurred by countries that accredit their over-indebtedness and pursue ad hoc programmes; and since 2005 it has supported the implementation of programmes without financing for supervisory and signalling purposes (see Box 1).

The weight of the IMF's concessional financing in the context of development aid is modest compared with that of the financial assistance provided by Governments, Multilateral Development Banks (MDBs) and other official and private creditors. Nor is the concessionality[2] — or the grant element — of lending particularly high, since it normally stands below 35%, the level considered the benchmark for this type of loan. Internally, concessional financing does not have a weight equivalent to that of the IMF's ordinary financing either: concessional lending accounts for around 12% of the IMF's total credit at present (see Chart 1).

The role of the IMF in this area is, moreover, the subject of controversy among those advocating that it should fully abandon concessional financial assistance, at one extreme, and those in favour of it deploying tasks proper to an MDB – a status the institution neither has nor pursues – at the other extreme.[3] Notwithstanding, the role played by the IMF with low-income countries[4] and its financial function, in particular, have progressively gained in significance and complexity over time (see Box 2). Moreover, the IMF actively participated in the financing of the Millennium Development Goals (MDG) during the period 2000-2015, within the United Nations Organisation (UNO) framework, and it is committed to the Addis Ababa Action Agenda (AAAA) for the attainment of the Sustainable Development Goals (SDG) during the period 2015-2030.[5]

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1 The IMF supervises the economic and financial activity of all its members bilaterally, regionally and multilaterally, it grants financing under market conditions intended for crisis prevention and crisis resolution, it has non-financial programmes and it provides technical assistance and advice in its areas of expertise to members so requesting it.

2 Concessionality, expressed as a percentage, is usually calculated as the relative deviation between the nominal loan value and the present value of the debt service of that loan, discounted at a market interest rate. As regards Official Development Assistance (ODA), a loan extended to a least developed country (LDC) and other low-income countries (LIC) is considered concessional if the grant element, thus defined, exceeds 45%.

3 This debate became weightier with the IMF's backing of the Millennium Declaration in 2000. The recommendation by the Meltzer Commission [Meltzer Report (2000)] that the IMF should discontinue the granting of long-term loans intended to reduce poverty and other similar ends illustrates how radical this discussion is. Lombardi (2005) briefly sets this debate in context.

4 IMF (2004 and 2008) provides the Fund's own institutional view.

5 See Garrido et al. (2016) on the achievement of the MDG, the launch of the SDG and the AAAA on Development Financing.

DISTRIBUTION OF IMF MEMBERSHIP BY COUNTRY GROUPINGS

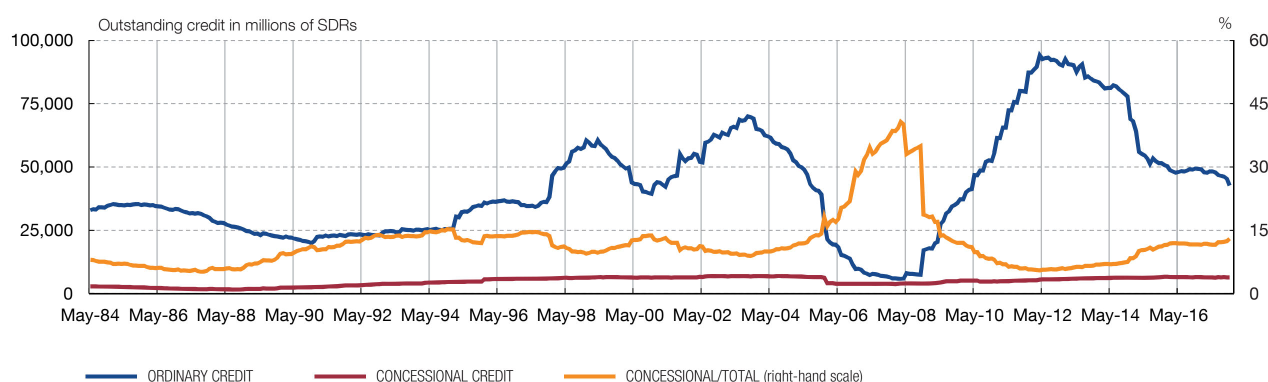
TABLE 1

	Countries		Population		Voting power	GDP (2015) At current prices		GDP (2015) Purchasing Power Parity (PPP)	
	no.	%	Inhab. (mill)	%	%	USD bn	%	USD bn	%
Advanced	35	19	1,023	14	59	44,118	59	47,276	41
Emerging	84	44	5,075	71	36	29,018	39	64,678	56
Low-income	70	37	1,102	15	5	1,175	2	3,154	3
TOTAL	**189**	**100**	**7,200**	**100**	**100**	**74,311**	**100**	**115,108**	**100**

SOURCE: IMF, World Economic Outlook (WEO), October 2017.

IMF FINANCING (1984-2017)

CHART 1



SOURCE: IMF.

Currently, the prospects of improvement for the economies of the low-income countries in the medium term are moderately optimistic: the IMF estimates that around 30 of these countries, somewhat less than half those comprising the group, will cease to meet the conditions for IMF concessional lending eligibility within two decades. That means that they will have raised their income above the poverty threshold in place at that time[6], or will have access to international financial markets in an ongoing and substantial way, and they will not have to withstand serious vulnerabilities, especially debt, in the short term. The path ahead, however, is long and uncertain.

During 2018, the IMF will review the lending toolbox available to these countries. This article examines the current status of and outlook for the IMF's concessional financing. First, it considers the basic characteristics of the IMF's concessional lending. Next, it analyses the structure and functioning of the trust fund from which this type of financing is channeled. Thereafter, it briefly assesses the IMF's lending policy with low-income countries, and concludes with some considerations on the immediate and future course of the IMF's concessional lending.

Main characteristics of the IMF's concessional lending

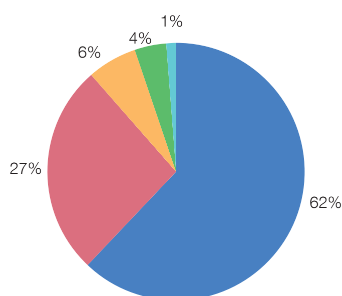
Currently, 69 IMF members – low-income countries, relatively underpopulated countries, and micro-States – can receive concessional financing.[7] The list of beneficiaries has progressively changed in accordance with a formal qualifying framework, which is

6 The threshold currently stands at annual per capita income, measured by GNP, of $1,165 in 2018, according to the International Development Association (IDA) of the World Bank group.

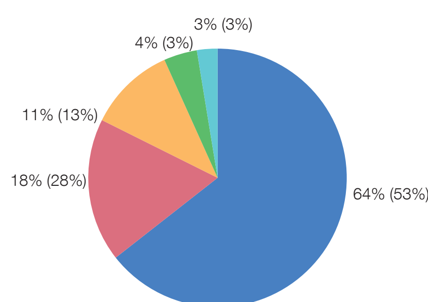
7 The inclusion of Zimbabwe among these countries is subject to the adoption of the measures envisaged to settle its arrears with the IMF.

CONCESSIONAL FINANCING BY GEOGRAPHICAL AREA (1986-2017) CHART 2

1 VOLUME APPROVED



2 NUMBER OF PROGRAMMES (NUMBER OF COUNTRIES)



■ SUB-SAHARAN AFRICA ■ ASIA AND OCEANIA ■ LATIN AMERICA AND THE CARIBBEAN ■ MIDDLE EAST AND NORTH AFRICA ■ CENTRAL AND EASTERN EUROPE

SOURCE: IMF.

harmonised with that of the International Development Association (IDA) of the World Bank group, and which is revised every two years in order to determine which members may acquire, maintain, forgo or regain concessional lending access status. More than 60% of the IMF's concessional financing – whether in terms of the volume granted or of the number of programmes – is concentrated in sub-Saharan African countries (see Chart 2).

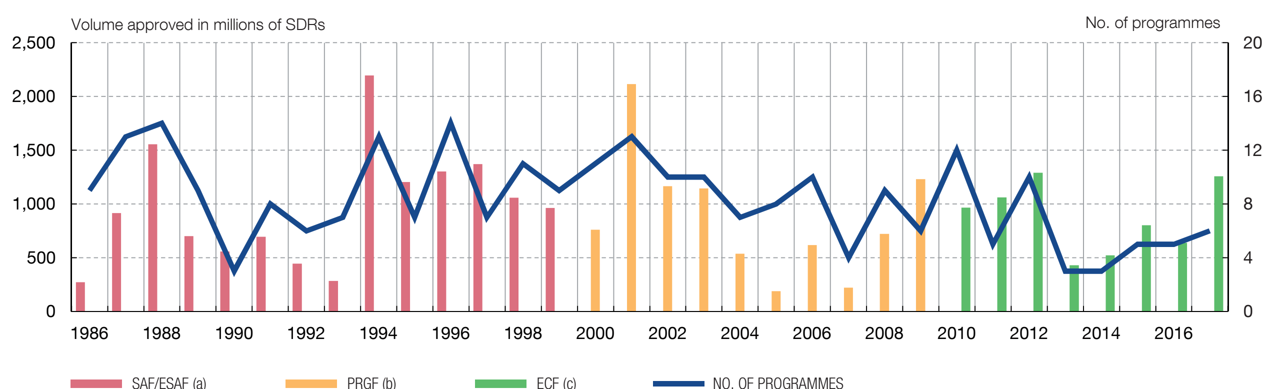
Since 1976, and more intensely so since 1986, the IMF has in practice been using the same concessional financial instrument under different names.[8] What is involved, essentially, is a three-year credit facility with a fixed interest rate of 0.5% per annum, a grace period of 5½ years, a final maturity of 10 years as from the first drawdown, and standard conditionality, centred on the implementation of structural reforms geared to economic growth. This instrument has financed more than 250 programmes (see Chart 3), with an average duration of 36 months, an average approved volume of over 100 million Special Drawing Rights (SDRs), equivalent to 90% of the beneficiary country's quota or to 4% of its GDP, and an average drawdown around 75% of the volume granted.

The 2009 reform of the IMF's concessional lending policy in response to the global financial crisis[9] entailed, among other measures, the introduction of three credit facilities (see Table 2) with similar names and characteristics to three facilities available in the IMF's ordinary lending arrangements (see below); in particular, the Extended Credit Facility (ECF) replaced the existing facility, with a similar design, as the IMF's main concessional instrument to counter prolonged balance of payments pressures. The Stand-by Credit Facility (SCF) was added to correct short-term external imbalances, respond to large exogenous shocks, and allow, for the first time in the framework of the concessional financing of the Fund, the

8 Specifically, the following names: Trust Fund Facility, from 1976 to 1986; Structural Adjustment Facility (SAF), in 1986; Enhanced Structural Adjustment Facility (ESAF), from 1987 to 1999; Poverty Reduction and Growth Facility (PRGF), from 1999 to 2009; and Extended Credit Facility (ECF), as from 2009. The IMF also had a specific concessional facility in response to exogenous shocks from 2005 to 2009. For a more detailed analysis of the different facilities, see Box 2.

9 The IMF also reformed its non-concessional lending policy in 2009: it streamlined the conditionality of its programmes, it doubled the ceilings on access to ordinary resources, it simplified cost structures and maturities on the agreements, and it readjusted lending arrangements by introducing new facilities, making current facilities more flexible and eliminating others deemed obsolete.

SAF/ESAF, PRGF AND ECF FACILITIES (1986-2017) CHART 3



SOURCE: IMF.

a SAF (Structural Adjustment Facility).
ESAF (Enhanced Structural Adjustment Facility).
b PRGF (Poverty Reduction and Growth Facility).
c ECF (Extended Credit Facility).

possibility of using the arrangement on a precautionary basis.[10] The Rapid Credit Facility (RCF) emerged to provide immediate financing, on a small scale and with limited conditionality, in response to urgent balance of payment needs.

Use of the SCF and RCF has been modest since they became part of the IMF's lending instruments (see Chart 4). From 2010 to 2017 a total of 10 programmes (for 7 countries) were approved for financing under the SCF, with an average duration of 18 months, and an average approved volume of around 125 million SDRs, equivalent on average to 80% of the quota or to 1% of the borrower's GDP, and an average drawdown around 25% of the amount granted (60% if 6 precautionary programmes are excluded in which, moreover, there was no actual use of funds). Over the same period 28 disbursements (for 19 countries) were made under the RCF, in response to various natural disasters, risks of pandemics and other emergency situations, for an average amount of 25% of the beneficiary country's quota.

The 2009 reform also led to the blend of concessional and ordinary resources, in equal proportion, for those low-income countries with a relatively sounder position, better prospects of access to international financial markets and with expectations of soon being able to do without concessional financing. Blending is based on a system where the two financial facilities – concessional and ordinary – for a single country have a one-to-one relationship: the ECF is combined with the Extended Fund Facility (EFF); the SCF with the Stand-By Arrangement (SBA); and the RCF with the Rapid Financing Instrument (RFI). In 2015, in the context of the adoption of the SDG, the IMF decided to double the proportion of ordinary resources.

The blending policy, however, is not new.[11] Until 2009, the IMF granted concessional and ordinary resources simultaneously to a single country in 25 different programmes. In 60%

10 The precautionary use of an IMF arrangement implies the commitment of the authorities of the country not to request disbursements during the term of the arrangement. This commitment, which is not binding, is normally formulated at the approval of the agreement and is usually reiterated in successive reviews, but it may be the case that the authorities acquire it once the arrangement has been initiated, and even after having made some disbursements.

11 Indeed, the low-income countries can, in addition to blending resources, also draw on ordinary financial resources in isolation, or in conjunction with concessional resources, albeit without simultaneous approval.

MAIN CHARACTERISTICS OF IMF CONCESSIONAL FINANCING FACILITIES

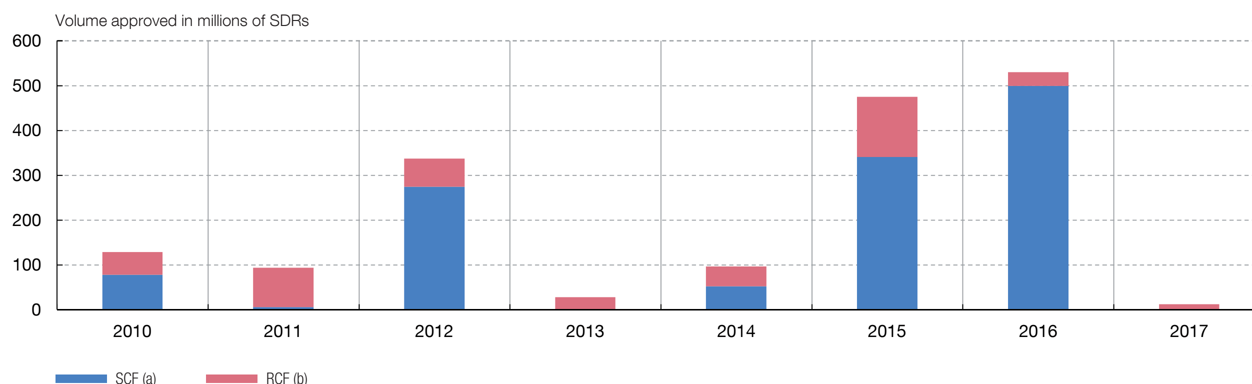
TABLE 2

Characteristics		Extended Credit Facility (ECF)	Standby Credit Facility (SCF)	Rapid Credit Facility (RCF)
Purpose		To provide for a stable and sustainable macroeconomic position that is consistent with poverty-reduction and sound and durable growth		
Objective		Medium- and long-term concessional financing for countries with actual (current or prospective) and prolonged balance of payments problems, with an expected resolution period normally equal to or greater than 3 years (greater than 2 years, in any event)	Short-term concessional financing for countries with actual or potential balance of payments problems, with a resolution period normally expected to be less than 2 years	Immediate disbursements for countries with pressing balance of payments problems owing to exogenous shocks, natural disasters, emergence from armed conflict, national instability, states of emergency and fragility
		Direct or indirect financing of deficits allowed, insofar as there is pressure on the balance of payments		
Duration		3 years, extendible up to 5 years. Unlimited number of successive agreements	1-2 years as from approval of the agreement. Possibility of several renewals (2 ½) in a period of 5 years	Indeterminate. Possibility of repeated use
Access	Normal	75% annual quota - 225% cumulative quota		37.5% (60% major natural disasters) annual quota – 75% cumulative quota
	Exceptional	100% annual quota - 300% cumulative quota		
Conditionality		Standard ex post rate. Quantitiative objectives and structural measures reasonably under the direct or indirect control of the economic authorities, of critical importance for the achievement of the programme's goals and necessary for the implementation of the provisions and policies envisaged under the IMF Articles of Agreement. Instruments: prior actions, quantitative performance criteria, indicative goals and structural benchmarks		Not necessary or not feasible. Specification of prior actions only under exceptional circumstances
Reviews		6 half-yearly revisions, normally	Half-yearly revisions (quarterly if closer monitoring is required)	Not foreseen
		Possibility of unifying consecutive revisions. Exemptions regime in observing or complying with conditions		
Disbursements		7 half-yearly disbursements, normally. Does not necessarily replicate the projected course of balance of payments needs	Half-yearly (quarterly) disbursements, the first of which upon approval of the agreement. Usually adapted to the projected course of balance of payments needs.	A single disbursement, or several over a limited period (in these cases, normally to smooth transition to an ECF agreement)
		Possibility of a first (frontloaded) or final (backloaded) sizable disburesement. Amendment of the drawdowns calendar		
Interest rate		Cost referenced to the interest rate on SDRs and subject to two-year revisions by the IMF Executive Board. Half-yearly settlement. 0% per annum at least until December 2018		
		SDR rate < 2% 0.00%	SDR rate ≤ 0.75% 0.00%	0%
		2% ≤ SDR rate ≤ 5% 0.25%	0.75% < SDR rate < 2% 0.25%	
		SDR rate > 5% 0.50%	2% ≤ SDR rate ≤ 5% 0.50%	
			SDR rate > 5% 0.75%	
Maturity		10 years	8 years	10 years
Grace period		5 ½ years from first drawdown of funds	4 years from first drawdown of funds	5 ½ years from first drawdown of funds
Repayment		10 equal half-yearly instalments, after the grace period	9 equal half-yearly instalments, after the grace period	10 equal half-yearly instalments, after the grace period
Precautionary use		Not envisaged. Approval of an ECF agreement for a small amount recommended	Envisaged. Annualised access of 50% quota, to be increased if balance of payments need materialised. Commission of 0.15% per annum for half-yearly drawdown of funds	Not envisaged
Incompatibility		SCF–Policy Support Instrument (PSI)	ECF	ECF-SCF
Blended PRGT–General Resources Account (GRA) financing		Extended Fund Facility (EFF)-SBA, occasionally	Standby Arrangement (SBA)–EFF occasionally	Rapid Facility Instrument (RFI)
		1:2 distribution between PRGT – GRA resources wtih a "ceiling" on PRGT resources subject to the concessional access rules and, as from this "ceiling", GRA resources		
Arrears with	Private creditors	The IMF's Lending into Arrears (LiA) policy is applicable. IMF financing if its support is considered essential and the country strives in good faith to reach collaboration agreements with its creditors		
	IMF	Staggering of measures: notification of the Board, loss of PRGT eligibility, statement of lack of cooperation, suspension of technical assistance, suspension voting and representation rights, and compulsory withdrawal.		
Financial guarantees		Approval and reviews subject to financing commitments by other official and private creditors, and verification of the country's capacity to meet its financial obligations with the IMF		Not required
Debt Sustainability Analysis (DSA)		Analysis usually prepared jointly by the IMF and the World Bank		
Poverty Reduction Strategy (PRS)		Alignment of the programme with the poverty-reduction and growth strategy led by the country, with the protection of social spending and other similar spending priorities, documented in an Economic Development Document (EDD)		

SOURCE: IMF.

SCF AND RCF FACILITIES (2010-2017)

CHART 4



SOURCE: IMF.

a SCF (Stand-by Credit Facility).
b RCF (Rapid Credit Facility).

INTEREST RATE OF CONCESSIONAL FINANCING

TABLE 3

% per annum

	2009		2015	2016	
	ECF/RCF	SCF	RCF	SCF	
				SDR rate < 0.75%	0
SDR rate < 2%	0	0.25	0	0.75% ≤ SDR rate < 2%	0.25
2% ≤ SDR rate ≤ 5%	0.25	0.5	0	2% ≤ SDR rate ≤ 5%	0.5
SDR rate > 5%	0.5	0.75	0	SDR rate > 5%	0.75

SOURCE: IMF.

of the cases, approval of the concessional facility was combined with an SBA, and the remaining 40% with an EFF. The average volume granted under the concessional facilities was of the order of half the lending approved jointly, while the average volume drawn down on these concessional facilities was always greater than that relating to the ordinary facilities, as might be expected in the case of less onerous resources.[12]

As from 2010, with the new map of concessional instruments, the landscape has changed: 3 programmes have blended ECF and EFF resources, 5 programmes have blended SCF and SBA resources, and 2 countries have received blended RCF and RFI emergency assistance. Under the decision adopted in 2015, the proportion of resources granted through EFF and SBA agreements has increased to the extent of doubling the weight of the ECF and SCF. Also, in 4 programmes (3 countries) the precautionary financing afforded by the two Stand-by windows was blended.

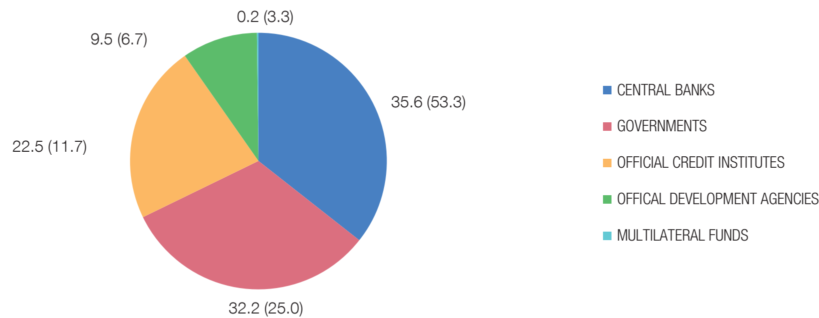
The 2009 reform also influenced the interest rate applied. The fixed rate of 0.5% per annum was replaced by a specific scale of rates for each credit facility, with tranches based on the

12 IMF ordinary financing generally applies a fixed charge (100 bp at present) to the interest rate on SDRs and surcharges for high and prolonged use of the credit (200 bp if the outstanding credit exceeds 187.5% of the quota, and an additional 100 bp if this situation is prolonged for over 36 months).

PARTICIPATION IN THE PRGT LOAN ACCOUNT BY TYPE OF AGENCY (1998-2018)

CHART 5

Amount committed (no. of agreements) as a %



SOURCE: IMF.

level of the interest rate on SDRs, and revisable every two years[13] (see Table 3). The adopted mechanism seeks to counter the loss of concessionality of IMF financing in an international context of significantly low interest rates[14], to preserve financial resources and to adapt the terms of the financing to the specific needs and circumstances of the beneficiary countries.

Structure and functioning of the PRGT trust fund

The trust fund that channels the IMF's concessional financing is called the Poverty Reduction and Growth Trust (PRGT). It is managed by the IMF and mainly financed through voluntary contributions by Governments, central banks and other official financial institutions, and through financial resources from the IMF itself. In balance sheet terms, the PRGT is separated from the rest of the IMF's financial resources[15] and is structured in three major accounts: loan, subsidy and reserves.

The loan account raises bilateral resources, in SDRs[16] or other currencies, at market interest rates[17] and grants concessional loans to low-income countries. The lenders' schedule for drawings and repayments is associated with the disbursements and reimbursements of end-borrowers. The total contributions to the account since the creation of the trust fund amount to 37.6 billion SDRs, of which around 21 billion relate to financing agreements in force. Central banks and Governments account for close to 68% of the contributions to this account[18] (see Chart 5).

13 In 2015 the IMF eliminated the interest rate on the RCF permanently and, one year later, it split the first tranche of the SCF so that this facility might also benefit from a zero rate. The mechanism, however, is still to be applied and will remain suspended until 2018 at least. Meantime, a common zero rate is exceptionally applied for all concessional facilities.

14 In response to this downtrend, the interest rate on SDRs, a stable, market rate applicable to the IMF's ordinary financing, has had a floor of 0.05% per annum since October 2014.

15 This division is because the Articles of Agreement do not allow the cost of the financing of the IMF's general resources to vary in terms of its members' levels of income. Any amendment to the Fund's statutes requires the favourable vote of three-fifths of the members representing 85% of the total voting power.

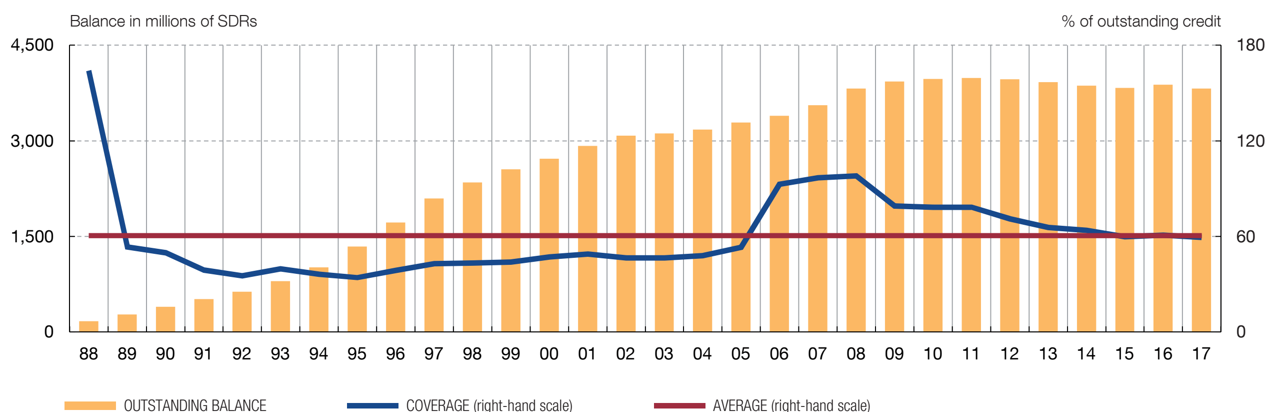
16 From the standpoint of the lender country, SDR contributions pose a problem in that they require conversion to another currency, in a narrow and relatively illiquid market, in which there are few participants prepared to voluntarily act as a counterparty.

17 Remuneration policy draws a distinction on the basis of the currency with which drawings are made: remuneration is at the SDR interest rate when disbursements are with SDRs or at an interest rate derived therefrom if disbursements are with other currencies. The derived rate has the same composition as the basket of SDRs, but with a final maturity of six rather than three months so as to thereby encourage contributions for lending in currencies other than SDRs.

18 The Banco de España has participated since 1978 in the financing of this account on five occasions. The amount committed to the PRGT currently amounts to 855 million SDRs, concluding in December 2024.

PRGT RESERVE ACCOUNT (1988-2017)

CHART 6



SOURCE: IMF.

The subsidy account covers the difference in interest rates between the market remuneration the official creditors receive and the interest rate borne by debtors. This account receives bilateral contributions in the form of donations, deposits and investments, and IMF resources originating in gold sales made in the 1970s. The bilateral contributions amount to 2.2 billion SDRs from 43 countries, mainly from national Treasuries.

Finally, the reserve account accumulates resources from the gains obtained on IMF gold sales that gave rise to the original trust fund, and from the investment income generated by such resources. The account, therefore, does not draw on external contributions and is intended to prevent loan arrears and default risks and to cover the administrative expenses of the trust fund. The current balance stands at 4 billion SDRs, approximately, and the coverage rate of the account, on average, represents 60.5% of the outstanding credit (see Chart 6).

The IMF has stated on several occasions its aim that the trust fund be self-sustained in the medium term, i.e. that the resources accumulated in the reserve account suffice to cater also for the subsidising of the credits, without additional contributions having to be made in the subsidy account. The achievement of this aim is based on a self-sustainability strategy finally formalised in 2012, which foresees an annual average lending capacity of 1.25 billion SDRs over two decades, the implementation of contingent measures when financing needs exceed the foregoing average,[19] and the presumption that the changes that affect concessional credit facilities in the future will be consistent with the self-sustainability of the trust fund.

A summary assessment of the IMF's concessional lending policy

The distinctive features of the IMF's concessional financing compared with other sources of development assistance involve, according to the institution itself,[20] promoting macroeconomic stability, facilitating the temporary absorption of other aid, resolving and preventing crises, tempering macroeconomic volatility with a lesser fiscal and balance of payments-related impact, signalling the satisfactory implementation of reforms by the country, and catalysing resources provided by other donors for development.

19 Raising of ad hoc resources, use of profits on sales of IMF gold holdings, and temporary suspension of the reimbursement of the PRGT's administrative costs covered with resources drawn from the IMF's own funds.

20 See IMF (2009a).

The IMF has an extensive and, generally, positive experience in financing low-income countries both in concessional and, to a lesser extent, ordinary or market terms. The IMF's financial role in this area has been based on the promotion of the development of its most vulnerable members by means of economic programmes increasingly focused on the Fund's areas of specialisation[21], with a clear signalling intention – both to attract more substantial financial resources under even more favourable conditions from other institutions for development[22], as well as to ease the forgiveness of these countries' debt by the international financial community – and supported by conditionality that is progressively led by the poverty-reduction strategies of the countries themselves.

Set against these elements, other more questionable aspects may be identified. One recurring concern of the IMF is to prevent, as far as possible, its members from excessively prolonging the use of its financial resources (ordinary and concessional alike) by linking up different programmes.[23] Behind this concern is the aim of accelerating crisis prevention and crisis resolution and, against a background of limited resources, of not hampering the access to funds by other countries.

The low-income countries are a good example of the tendency to perpetuate IMF financing. The prolonged use of IMF resources was assessed by its Independent Evaluation Office (IEO) in 2002. The analysis evidenced the fact that the low-income countries and, to a lesser extent, the countries in transition towards market economies made up the majority of the prolonged-user group. The lag between the long-term objectives of the programmes and the short-term tools available, the perception that the IMF's financial resources would be permanently available, weak implementation capacity on the part of the countries and the absence of leadership and commitment by national authorities to the programmes were the main determinants of this situation.

In response to this evaluation, the IMF placed emphasis on improving the design of the programmes and on boosting borrowers' "ownership" thereof – aspects which were also included in the revised guidelines on conditionality that were being developed in parallel – rather than on introducing measures to reduce the use of their resources.[24] The updated 2013 IEO report confirmed that prolonged use of these loans was concentrated in a relatively small group of low-income countries, substantiating the 2002 conclusions and recommendations.[25]

Moreover, the separation of the PRGT trust fund from the rest of the IMF's accounts raises some questions. Quotas play an essential role in the functioning of the Fund. The

21 The literature on the macroeconomic effects of the IMF's programmes, including those for low-income countries, is extensive, and its results differ in terms of the variables examined, the sample of programmes selected and the methodology adopted. For the subject at hand, see, for example, the assessments by Schadler (1993), Botchwey (1998) and IMF (1998) on the programmes financed by the ESAF facility, those of the IEO (2004 and 2014) on the programmes financed through the PRGF, and those of Mumssen (2013) and Bird and Rowlands (2017) in reference to the ESAF-PRGF-PRGT facilities during the 1986-2010 period.

22 The literature of the catalytic effect of IMF programs is extensive and does not yield conclusive empirical evidence. Some of the works collected in the review of Bird (2007) point to a greater effect in the case of official bilateral aid flows to low-income countries with respect to other capital flows to emerging economies.

23 Within the IMF, a country is deemed to maintain a prolonged financial relationship with the institution when it consecutively has programmes financed with IMF resources for a period of 7 or more years within a 10-year period.

24 The possibility of penalising the prolonged use of resources with a higher interest rate, for instance, was rejected in the past since it was considered inappropriate for low-income countries, which are highly dependent on concessional financing.

25 Bal Gunduz (2013), from a different perspective, find evidence that both the low-income countries' commitment to the IMF in the long term (at least 5 years per decade) and their short-term involvement, associated with the drawdown of resources in response to exogenous shocks, have a beneficial effect on economic growth.

quota of each IMF member is based mainly on its relative position in the world economy. Among other functions, the quotas determine the maximum financial commitment to the Fund and regular access to its financing. The contributions to the PRGT, however, are voluntary and generally independent of the relative size of the contributing country, while the volume of concessional financing that a low-income country receives is indeed on the basis of its IMF quota.

It is for the Executive Board, upon management's proposal, to approve programmes financed with PRGT loans and the periodic revision of these programmes, under which disbursements of the successive committed tranches are made. This decision-making procedure involves all the members of the IMF, whether or not they contribute to the PRGT. In short, the asymmetry between debtors and creditors in the instrumentation of the quota, on one hand, and the asymmetry between the creditors themselves in the decision-making process, on the other, evidence a governance deficit in the management of the IMF's concessional lending.

Towards a progressive consolidation of IMF loans

The review scheduled for 2018 will, among other aspects, examine the procedures for the use of the various concessional facilities; the differences in objectives and terms among the Fund's concessional and ordinary facilities and the extent to which these differences hamper combined financing; the effectiveness of programmes in terms of economic growth and poverty-reduction; and the degree to which access policy enables the financing requirements of these countries to be reconciled with the safeguarding of what are scarce concessional resources.

The review is expected to raise possible adjustments to several aspects of concessional financing, such as access limits and norms and related policies (augmentations and extensions of the agreements), the interest rates on credit facilities, the precautionary use of concessional financing, financial assistance in response to natural disasters and situations of extreme fragility, and the continuity of the non-financial programmes available to these countries (see Box 1), given that the Fund has had non-financial programmes in place for this purpose, available for all its members, since 2017.

The positions within the IMF ahead of this debate range between advocates of increasing loan volumes, making concessional financing cheaper and extending maturities, and those who show concern over the renewed external over-indebtedness of the low-income countries (an issue that will also be given priority during 2018, in the G-20 working group on international financial architecture) and who place the self-sustainability of the PRGT subsidy system, in the terms envisaged by the institution, ahead of other options. Against this background, there is room to explore options aimed at a progressive integration of PRGT credit into the IMF's general lending policy, that which is financed through the quotas and the indebtedness with some of its members, as the bulk of the low-income countries progressively strengthen their economic situation.

As indicated, the low-income countries have not only financed their programmes with the IMF through concessional resources, but, on some occasions, they have also blended concessional and ordinary funds and, on others, they have used solely ordinary resources. The 2009 reform and the latest developments provide, among other measures, for a blending policy better adapted to the specific circumstances of the potential applicants and for a clearer application framework, which makes it more attractive and encourages its use. One option is that low-income countries whose situation allows them to blend both types of resources may opt between incurring debt under the current blending policy or,

alternatively, doing so only with concessional resources, but assuming dearer credit – through interest rates surcharges – to the point that both forms of indebtedness prove financially equivalent. This solution, which would also make the concessional financing policy more flexible, would enable the IMF to generate additional funds for concessional financing, in a context of scarce resources[26], while the countries that were to adopt it could adjust the credit in its entirety to the profile of the concessional facility's disbursements and repayments.

The IMF, on the other hand, has added new concessional lending instruments, in an attempt to offer a broader and, at the same time, more granulated range of financial facilities better adapted to the specific characteristics of the countries comprising this group. The resulting catalogue of facilities closely and openly matches much of the map of the Fund's non-concessional financial instruments. It is too premature to consider full equivalence between both forms of credit, since the low-income countries taken as a whole are not yet in a position to discard the concessional financial assistance offered by the IMF. That, however, does not prevent longer-term proposals along these lines from being raised.

The substantial agreement over the design and characteristics of the IMF's concessional and ordinary instruments opens the way to considering the consolidation of all the financial facilities in the IMF's financial structure, without compromising or interrupting the provision of concessional lending. Moving the concessional facilities would entail switching the raising of new loanable resources to the area of the quotas, as occurs with the bulk of the financing provided by the IMF, and trusting in the continuity of the current self-financing regime for subsidies.[27] This solution would not confer on the Fund a different role to that it has been performing with the low-income countries: there would be no grounds for reducing this role, as might be inferred from the elimination or slimming-down of the PRGT, or for boosting it, as a result of the mobilisation of loanable resources through the IMF's natural channels. The main consequence would be a simplification of the Fund's lending policy, making it more consistent, for all purposes, with the quota-based functioning of the institution, as acknowledged by most of its members.

31.5.2018.

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26 A greater use of concessional resources would raise the demand for these loans above the levels that allow the self-sustainability of the PRGT, while imposing surcharges on the interest rate would reduce the need for subsidies.

27 In fact, the elements on which the self-sustainability of the PRGT rests also substantiate this solution. If this strategy could not ultimately be pursued, the raising of resources for subsidy might benefit from setting in place a regular fund replenishment system, such as that of the IDA at the World Bank, which is currently absent at the IMF.

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OTHER IMF FUNCTIONS RELATED TO LOW-INCOME COUNTRIES: THE HIPC INITIATIVE AND THE PSI INSTRUMENT

BOX 1

In addition to concessional loans, which are the focal point of this article, the IMF performs other functions aimed specifically at the low-income countries.

The application of an IMF-financed programme is, generally, a prerequisite for sovereign debt restructuring within the Paris Club. In 1996, the Fund and the World Bank, through the Heavily Indebted Poor Countries (HIPC) initiative, decided to spearhead the efforts of the international financial community (comprising multilateral institutions, governments – inside and outside the Paris Club alike – and private creditors) to reduce the external debt burden of the most indebted poor countries to sustainable levels.[1] The HIPC initiative, which was strengthened in 1999 and multilateralised even further in 2005, involved a two-stage process, separated by an intermediate stage known as the decision point, where the concessional financing of both institutions played a central role in enabling the conclusion of this process and completing all the debt relief that the various creditors had committed to, including the two Bretton Woods institutions, at the so-called culmination point. With all its upsides and downsides, the initiative has played a key part in the IMF's granting of concessional lending to these countries since 1996. Now reaching its conclusion (36 countries have completed it while 4 more might still embark on it), the process entailed an approximate relief-related cost of $77 billion in current value terms as at end-2015.

The Policy Support Instrument (PSI), created in 2005, is a non-financial programme conceived for low-income countries that do not need – or want – the IMF's financial assistance. Its objective is to offer a reinforced surveillance tool in the form of a programme subject normally to half-yearly assessments and geared to promoting dialogue with the Fund and to delivering clear signals to donors, creditors and the general public about the adoption of IMF-backed economic policies. A PSI may be approved for a duration of one to four years (with a maximum of five years) and may be rolled over as long as the country remains in the same situation. Since its creation, approvals have been authorised on 18 occasions to 7 countries, all of them from sub-Saharan Africa. The PSI has enabled the economic stability of user countries to be consolidated, with a considerable degree of compliance with the programmes (greater in the case of quantitative conditions than in that of structural reforms), despite the absence of financing. In 2018 the Fund will examine the possibility of replacing this instrument with an analogous one, namely the Policy Coordination Instrument (PCI), available to all members – irrespective of their level of income – as from 2017.

1 Some 40 low-income countries, qualifying to receive financing under the Enhanced Structural Adjustment Facility (ESAF), and unable at that time to meet their debt service by means of export revenue and capital inflows, mainly.

THE IMF AND THE LOW-INCOME COUNTRIES. OVER THREE DECADES' PARTICIPATION IN DEVELOPMENT FINANCING. TIMELINE.[1]

BOX 2

August 1975. The IMF created the Oil Facility Subsidy Account (OFSA), drawing on contributions from the oil-exporting and industrialised countries, to subsidise the cost of this credit facility for those developing countries most severely affected by the rise in oil and oil derivatives prices according to the United Nations Secretariat General.

May 1976. The IMF established the Trust Fund to provide financial assistance with which to support the balance of payments of the developing countries, with the profits from the sale of 25 million fine ounces of its gold holdings.

October 1985. The IMF Interim Committee agreed to grant concessional financing to the low-income members totalling 2.7 billion SDRs with the expected Trust Fund reflows during the 1985-1991 period.

March 1986. The IMF created the Structural Adjustment Facility (SAF), and the trust fund of the same name, for the purpose envisaged by the Interim Committee. It was agreed that the list of the countries that could avail themselves of this assistance would coincide with that of the countries eligible to receive financing from the IDA, albeit without acknowledging any formal or automatic link between both lists.

December 1987. The IMF replaced the SAF with the Enhanced Structural Adjustment Facility (ESAF), to finance macroeconomic and structural programmes lasting three years, sounder than the previous programmes and aimed at adjusting the external imbalances and boosting the growth of the low-income countries.

March 1989. The IMF and the World Bank, in response to concern about the overlapping of functions between both institutions and cross-conditionality, signed a collaboration agreement, known as Concordat.

September 1996. The IMF Interim Committee and the World Bank Development Committee jointly adopted the Heavily Indebted Poor Countries Initiative (HIPC) with the aim of reducing to sustainable levels the external debt burden of the countries eligible to join the initiative.

September 1999. The IMF and the World Bank strengthened the HIPC initiative to accelerate, extend and deepen debt relief, linking it more closely to poverty-reduction. Moreover, the IMF adopted a resolution to conduct an exceptional and one-time off-market sale of up to 14 million fine ounces of gold, as part of a package enabling the financing of the Fund's participation in the enhanced HIPC initiative.

November 1999. The ESAF was re-named the Poverty Reduction and Growth Facility (PRGF). Its aim is to boost durable growth, raise standards of living and reduce poverty, pursuant to strategies led by the economic authorities of the country and documented in a Poverty Reduction Strategy Paper (PRSP).

December 1999 and April 2000. The IMF conducted seven off-market gold transactions with Mexico and Brazil for a total amount of close to 13 million fine ounces. The Fund sold gold to these countries and, at the same time, accepted their return at the same price as settlement for the obligations incurred by these countries with the IMF. As a result of the transaction, the Fund's physical holdings of gold remained unchanged, while it recognised a capital gain earmarked for financing its contribution to the debt relief envisaged under the HIPC initiative.

September 2000. The United Nations General Assembly adopted the Millennium Declaration. This document included eight major goals relating to the eradication of poverty, universal primary education, gender equality, infant and maternal mortality, HIV/AIDS and the conservation of the environment, to be met by the 2015 time horizon.

May 2001. The IMF opened an administered account to raise resources, drawn from voluntary bilateral contributions, intended to subsidise the interest on Emergency Post-Conflict Assistance (EPCA), for PRGF-eligible countries in a post-war situation.

March 2002. Under the aegis of the UNO, various governments, the World Bank, the IMF and other multilateral agencies signed the Monterrey Consensus on Financing for development in Mexico.

January 2005. The IMF extended the EPCA interest rate subsidy to the Emergency Natural Disasters Assistance (ENDA), for PRGF countries affected by natural disasters.

April 2004. The IMF established the Trade Integration Mechanism (TIM) to help member countries to overcome temporary balance of payments pressures resulting from growing trade liberalisation.

September 2005. The International Monetary and Financial Committee (IMFC), the new name for the Interim Committee as from 1999, and the Development Committee reached an agreement to forgive 100% of HIPC-eligible countries' debt with the IMF, the World Bank and the African Development Fund (ADF) under the Multilateral Debt Relief Initiative (MDRI) promoted by the G-8.

October 2005. The IMF adopted the non-financial Policy Support Instrument (PSI) programmes conceived for low-income countries that do not want, or need, IMF financing, but which are pursuing institutional assessment and backing of their policies.

1 A detailed analysis of the history of the IMF during the 1972-1978 and 1979-1999 periods, from the perspective of the institution itself, can be found in Garritsen De Vries (1986) and Boughton (2001 y 2011), respectively.

November 2005. The IMF established the Exogenous Shocks Facility (ESF), within the PRGF trust fund, whose name changed to PRGF-ESF trust fund. The ESF was to provide concessional financing to low-income countries undergoing exogenous shocks, such as adverse changes in commodities prices, natural disasters, conflict and crisis with neighbouring countries, etc.

September 2008. The IMF split access under the ESF into two components: a rapid disbursement window and a high access window.

July 2009. The IMF overhauled its concessional financing, making it more flexible and adapting it to the needs of the low-income countries. Three new facilities – the Extended/Stand-by/Rapid Credit Facility (ECF, SCF and RCF) – replaced those hitherto in place, a new interest rate-setting mechanism was introduced for each facility on the basis of the SDR rate, the policy whereby concessional and ordinary resources are blended for a single country was reinforced, and the PRGF trust fund was adapted to the new facilities and changed its name to Poverty Reduction and Growth Trust (PRGT). In acknowledgment of the global crisis, and exceptionally, the annual interest rate for the three PRGT facilities was set at 0% to December 2011, initially, and, after successive extensions in 2012, 2014 and 2016, to December 2018.

June 2010. The IMF created the Post-Catastrophe Debt Relief (PCDR) trust fund, to enable its participation in international debt relief in favour of poor countries affected by catastrophic natural disasters, as was the case with the Haiti earthquake in January that year.

December 2010. The IMF concluded a programme involving the partial sale of its gold holdings. Profits amounted to 6.85 billion SDRs, 4.4 billion of which were earmarked to obtain investment income with which to supplement the Fund's ordinary revenue, and the remainder, to finance the PRGT subsidy account. The distribution of profits to this end concluded in 2013.

November 2011. Under the IMF's ordinary financing, the Rapid Financing Instrument (RFI) was introduced to respond to pressing balance of payments needs. This instrument replaced ENDA and EPCA assistance.

September 2012. The IMF approved a framework ensuring the self-sustained functioning of the PRGT subsidy whereby, in the medium term, the reserve account – in addition to covering loan arrears and default risks – would cover the interest rate subsidy and the administrative charges of the trust fund, once the resources accumulated in the subsidy account were exhausted.

February 2015. The IMF created the Catastrophe Containment and Relief Trust (CCRT) fund, for the relief of debt incurred with the IMF by low-income countries affected by multiple catastrophes. The CCRT replaced the PCDR, and its initial endowment stemmed from the latter and from the extinct MDRI trust fund.

June and July 2015. The PRSP framework was simplified. The IMF increased access to PRGT resources by 50%, it doubled the volume of non-concessional resources in the mix of PRGT and ordinary resources, placing it at a proportion of 1/3-2/3, respectively, it brought access under the RFI onto an equal footing with that of the RCF, and it set the interest rate on the RCF at 0% per annum permanently, irrespective of the level of the interest rate on SDRs.

September 2015. The United Nations General Assembly adopted the SDG or 2030 Agenda.

October and November 2016. The IMF lowered the cost of financing of the SCF, it clarified the blending policy in force, the rules for access to IMF resources, and the precautionary financial assistance that low income countries can receive.

May 2017. The IMF raised the annual ceiling on access to the RCF and RFI financial assistance available for countries affected by a large-scale natural disaster.