SIMPLIFICATION OF IMF LENDING

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Introduction

The International Monetary Fund (IMF) is currently conducting an ambitious strategic review, prompted by a perception that the institution has become less relevant in the international arena. The current levels of Fund lending, which are at all-time lows, have been interpreted as a manifestation of this situation. Apart from the current absence of crises in emerging countries, some members have repaid loans early and the possibility of resorting to alternative insurance mechanisms that may displace IMF lending, such as the Chiang Mai Initiative, is increasingly being considered. The paltry levels of financing granted are, moreover, insufficient to enable the IMF to cover its operating costs, since the revenues of the institution depend almost entirely on its volume of lending. The IMF is considering alternative sources of financing to break this strong link between lending and revenues.

In recent years, the IMF has made a significant effort to adapt to a continuously evolving international economy, but the changes made have not been sufficient. Certain aspects of the institution still need reviewing, such as its role in the surveillance area, the best way of responding to the needs of its members, especially the emerging economies and low-income countries, and how to improve countries' representation in its decision-making bodies. These are all priority reforms and constitute the main objective of the strategic review currently under way. Along with the search for a financing model that is not so dependent on credit, the strategic review offers an excellent opportunity to re-examine the IMF's lending activity, and that is the aim of this article.

Study of the IMF's lending apparatus and its use during the present and the last decade provides arguments for the introduction of a number of improvements. The current range of financial facilities is not the result of systematic planning, but of a process of adaptation to the different types of balance of payments need and crisis that have arisen during the IMF's existence. The introduction of new lines in response to new financial challenges has given rise to a proliferation of instruments that appears to be excessive. Indeed, some of these facilities have been used only temporarily and others have never actually been used at all.

The IMF has successively eliminated the most obsolete instruments, but there is still room to simplify the current lending mechanism. At the same time it could also be made more flexible, to enable the adaptation to possible crises to be more rapid and effective, and its incentive structure could be improved, to ensure that countries make the best possible use of the institution's resources. This would involve precise adjustment of the volume and duration of credits, with the twofold aim of preserving resources and increasing their availability to members. With these considerations in mind, this article reflects upon the possibility of replacing the IMF's current credit lines by a single one that would incorporate the improvements mentioned above, while also eliminating the risk of arbitrage across instruments, for which the Fund has been criticised.

In order to develop these issues, this article begins by analysing the IMF's present lending mechanism and its use over the period 1990-2006. It goes on to explore the advantages of merging all the ordinary credit lines into a single credit line or financial facility and then considers the main features that such a mechanism should incorporate, its impact and its interaction with other elements of the IMF's lending framework. The article ends by drawing some conclusions.

The IMF's lending framework and its evolution

CURRENT LENDING FRAMEWORK

IMF financing is designed to cover the temporary balance of payments needs of member countries, when they are unable to obtain in the market, on accessible terms, sufficient funds to make their international payments. This financial assistance may be accessed through three channels which share the common purpose of transferring reserve currencies to the countries: regular operations, allocations of Special Drawing Rights (SDRs) and concessional operations. This article focuses solely on regular operations, which are the cornerstone of the IMF's lending activity. These operations are financed with funds from the General Resources Account (GRA), the backbone of the IMF's financial structure, made up of members' contributions in the form of quotas.

IMF lending takes place through a mechanism of currency purchases and repurchases, equivalent to the disbursements and repayments of a conventional loan. When financing is granted to a country, the latter purchases SDRs or some other *strong* currency from the IMF, in exchange for the equivalent amount of its own currency. Subsequently, to repay this financing, the country repurchases its own currency using SDRs or some other *strong* currency. It should be noted that, strictly speaking, credit only exists when the member country's purchases exceed the whole of its quota, since until then it is merely making use of its contribution to the institution.

The credit granting process is based on an arrangement which stipulates, on the one hand, the specific policies and measures that the country commits to implement to resolve its balance of payments problem and, on the other hand, the amounts that the IMF shall make available through its facilities. The IMF will previously have assessed the situation of the borrower country, whether recourse to its funds is justified and whether there are sufficient guarantees that these funds will be returned. The IMF will also estimate the borrower's financing needs and the volume and maturities it is able to assume, taking into account the internal adjustment it will necessarily have to make and the private sector's participation in the coverage of these needs. On this basis, the country negotiates an economic programme with the IMF which it presents in a Letter of Intent to its Executive Board. Once the arrangement has been approved, the credit will be made available in the form of periodic disbursements conditional upon implementation of the successive phases of the programme or, in IMF terminology, upon compliance with the conditionality.

The IMF has a number of financial facilities or credit lines, to respond to the various needs of its members arising from various types of crisis:

— *Stand-by Arrangements* (SBA). These are designed to help countries to address short-term balance of payments problems and, as we shall see below, channel most of the resources lent by the IMF.

— *Extended Fund Facility* (EFF). This facility basically works in the same way as the SBA, but its objective is to help to address longer-term balance of payments problems requiring reforms of a more structural nature.

— *Supplemental Reserve Facility* (SRF). This credit line is designed for countries suffering exceptional balance of payments difficulties, which need short-term financing on a large scale, as a result of a sudden and disruptive loss of confidence in the markets. Access to the SRF is not subject to the ordinary access limits, although it is subject to the *exceptional access framework* (defined below), and depends on the country's financing needs, its repayment capacity, the soundness of its programme and its economic and financial record.

MAIN FEATURES OF THE GRA FACILITIES TABLE 1

Facility	Access limits (% quota)	Surcharges* (basis points)	Periods (months)		
			Arrangement	Repayment	
				Expected	Compulsory
SBA	100% per annum 300% in total	100 if 200%Q < V < 300%Q 200 if V > 300%Q	12-18 (max.36)	27-48	39-60
EFF	100% per annum 300% in total	100 if 200%Q < V < 300%Q 200 if V > 300%Q	36 (max. 48)	54-84	54-120
SRF	Unlimited**	300 the first year 50 extra each 6m, max. 500	max. 12	24-30	27-36
CFF	10-55%	100 if 200%Q < V < 300%Q 200 if V > 300%Q	—	27-48	39-60
EAF	25-50%	—	—	—	39-60

* Q: quota; V: volume drawn down. ** Subject to compliance with the exceptional access framework criteria.
Memorandum item: service charge of 50 basis points.

— *Compensatory Financing Facility* (CFF). This facility is used to assist countries experiencing either a sudden shortfall in export earnings or an increase in the cost of cereal imports, as a result of world commodity price fluctuations. The reason for the application for this facility must be short-term and beyond the member country's control.

— *Emergency Assistance Facility* (EAF). This credit line is granted to support the recovery of countries following a natural disaster or armed conflict, sometimes at subsidised interest rates. A special feature is that it is backed up not by conditionality, but by economic policy advice and Technical Assistance.

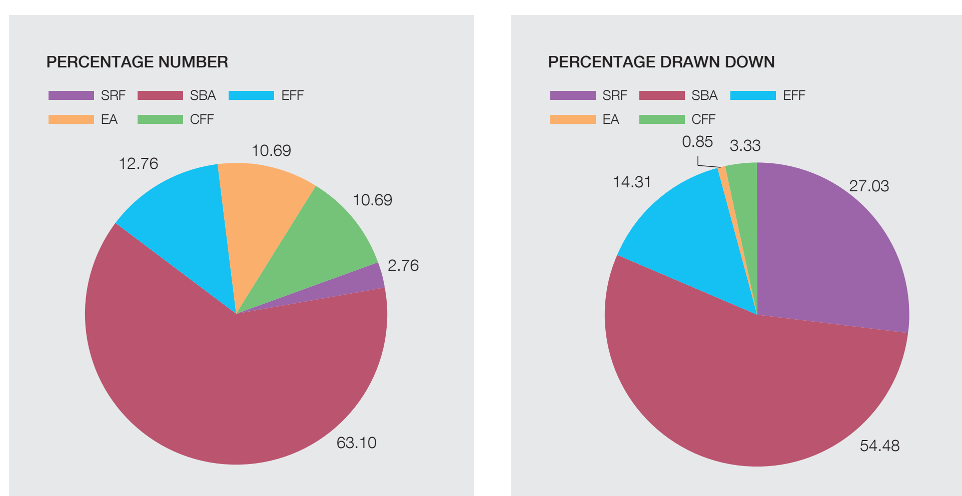
Table 1 shows the main features of these five facilities. The volume of financing that a country can obtain, i.e. its *access limit*, varies according to the type of loan and is expressed as a multiple of its IMF quota. All facilities are subject to what is known as the *rate of charge,* which is the SDR interest rate plus a profit margin and a further mark-up for specific reserves. The SDR rate is a market rate, which is calculated weekly as the weighted average of the short-term interest rates of the money markets of the currencies that make up the SDR valuation basket (US dollar, euro, Japanese yen and pound sterling). In addition to the rate of charge, the IMF charges premiums or *surcharges,* based on the volume drawn down or the time elapsed, depending on the type of facility.

As Table 1 shows, three facilities (SBA, EFF and CFF) have a volume surcharge, and only in one case (SRF) does the cost increase with the length of the programme. Also, the arrangement and repayment periods vary according to the facility used. The latter are divided into compulsory periods and expected periods, a distinction introduced by the IMF to provide incentives for a limited use of its resources over time.

In addition to these credit lines, the framework regulating the IMF's lending activity consists of *policies* or rules which establish how access to financing may be obtained in particular circumstances. The main ones are the exceptional access framework and the Lending into Arrears (LIA) policy*.* The former dictates the conditions that must be fulfilled for a country to be able to gain access to larger volumes of credit than those detailed in Table 1, while the latter stipulates the circumstances that should exist and the measures that a country must take to have access to IMF lending when it is in arrears to its private creditors.

USE OF FACILITIES

CHART 1



SOURCES: IMF and Banco de España.

LENDING DEVELOPMENTS

During the period 1990-2006 the IMF financed 290 programmes in favour of 90 countries[1]. This is the most representative period of Fund lending, since it ranges from short- and medium-term current account imbalances, the Fund's traditional activity, to the so-called 21st century crises (Mexico 95, south-east Asia 97, Russia and Brazil 98, Turkey and Argentina 01 and Uruguay 02), and also includes the financing granted to economies in transition from a planned to a market model in the first half of the 1990s.

The left-hand panel of Chart 1 shows the distribution of facilities granted by number. The first conclusion to be drawn is the predominance of SBA arrangements. Also striking is the fact that SBA and EFF programmes together account for more than 75% of the total. Even more revealing is the analysis of the volumes actually drawn down under these programmes, which are shown in the right-hand panel. These volumes could be interpreted as being the amounts that the countries really needed to cover their financing shortfalls after exhausting market channels, internal adjustment and private-sector involvement.

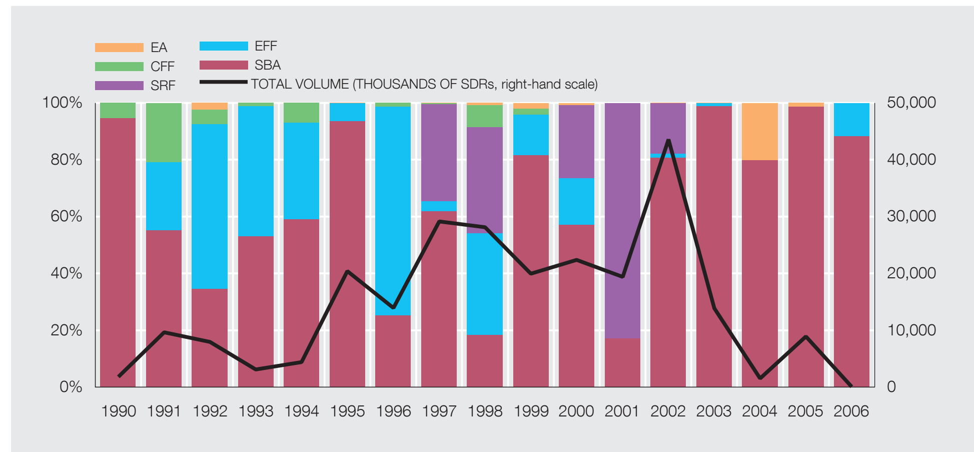
The main difference between these two panels is that the analysis of the volume of credit shows the true weight of the SRF facility, since its creation in 1997, and the residual use of the EAF and CFF. Also, comparison of the two panels shows the intense use, in volume terms, of the SRF, i.e. the large amounts drawn down under this facility in a very small number of programmes (eight in all).

The distribution of the volume of financing drawn down by line also shows that practically all the institution's lending (97.2%) is concentrated in three lines: SBA, EFF and SRF. This high degree of concentration, the great similarity between the SBA, EFF, CFF and EAF facilities (especially the first two, which only differ in terms of their duration and the type of conditionality associated with them), and the fact that the SRF line is always granted in conjunction with another one (normally an SBA or, very rarely, an EFF) are arguments for a possible reduction in the number of available facilities.

1. The following analysis does not consider the use of credit lines that were eliminated during the reference period. Their inclusion would have strengthened the argument that the number of facilities is excessive when compared to their actual use, but for the purposes of this article it was considered more rigorous to base the analysis on the current catalogue of facilities.

DISTRIBUTION OF FACILITY USE OVER TIME

CHART 2



SOURCES: IMF and Banco de España.

The concentration of lending in these facilities has been constant over the years. Chart 2 shows the volume of credit approved and its percentage distribution among the various facilities during the period of study. The use of SBA arrangements has shown a marked preponderance, shared firstly with the EFF facility (1991-98), and subsequently with the SRF facility (1997-02). It should also be noted that the correspondence between lines and objectives has not always been clear. Although each facility is designed, in principle, to resolve a specific balance of payments need, in practice their granting has not faithfully reflected such needs, giving rise to *arbitrage across facilities.*

Would one single facility be sufficient?[2]

Analysis of the current lending framework and how it has been used suggests two possible areas for improvement. First, there are arguments to support the view that it might be possible to simplify the IMF's catalogue of facilities and to make it more flexible, without any loss of usefulness to its members. Second, its incentive structure could be strengthened, to ensure that the use of the IMF's resources is in line with the actual needs of the country in difficulty, given their scarcity and the need for them to be available to all members. In accordance with this approach, this section raises the possibility of replacing the current credit lines with a single facility, flexible enough to meet the different demands of the borrower countries. This facility would have a cost structure that rises with the volume and duration of the credit, and periods that are better aligned with borrowers' needs.

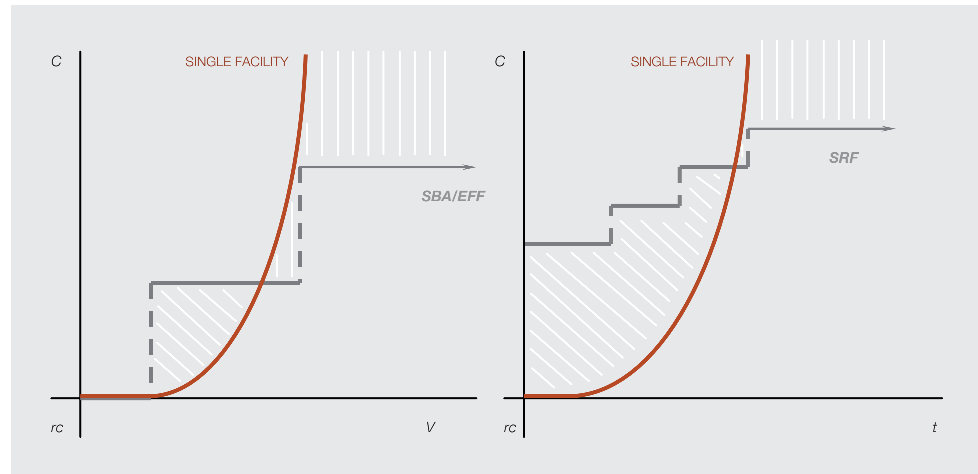
COST STRUCTURE

As already mentioned, the current SBA and EFF facilities have a stepped cost profile, rising with the volume of financing granted, irrespective of the duration of the programme. The opposite is true for the SRF facility, the cost of which rises as its duration lengthens, irrespective of the amount of the financing (see Figure 1).

Combining these two criteria, the cost of a hypothetical single facility would be determined by two variables. The cost-setting system would be based on the IMF's current rate of charge (rc), adding extra basis points (ebp) as the volume (V) – in terms of the quota – and the duration (t) of the financing increase. To achieve the objectives mentioned above, this system would offer cheaper loans for those volume and duration tranches considered appropriate[3] while, at the same time, making financing above certain thresholds more expensive.

2. The forthcoming Banco de España Occasional Paper *Streamlining the IMF Lending Mechanism. Why not a Single Financial Facility?* contains an in-depth analysis of this possibility. **3.** These tranches would be set by the IMF and could be revised periodically to adapt them to the current international economic conditions.

THE SBA/EFF AND SRF FACILITIES COMPARED TO A SINGLE FACILITY FIGURE 1



SOURCE: Banco de España.

Figure 1 compares, by way of example, a facility having these features with the current SBA/EFF facilities (left-hand panel) and with the SRF (right-hand panel). The areas marked with oblique lines represent cheaper financing with the single facility or, in other words, an incentive to apply to the IMF in such terms as involve a sparing use of resources, in line with its objectives, thereby minimising the risks for both parties and promoting sustainable borrowing that is balanced across the various sources of financing. The areas with vertical lines represent a relative rise in the cost of resources or an incentive not to use IMF financing on conditions that generate risks or diverge from the functions for which the IMF is conceived.

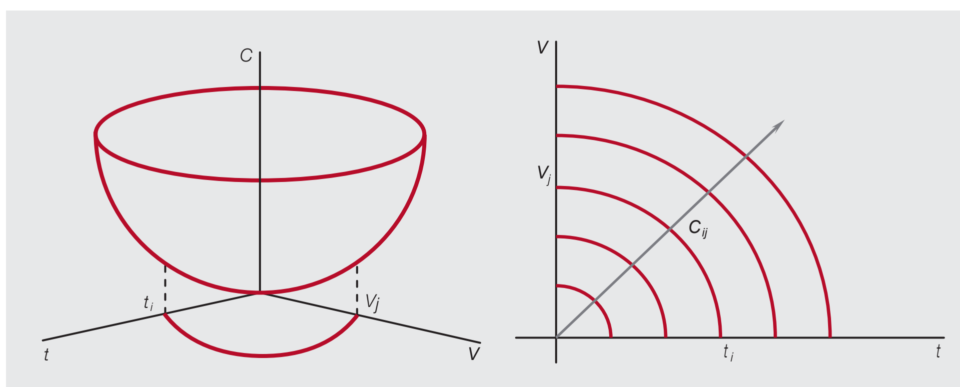
It is important to note that the decline in costs referred to above would not in any event entail a relaxation of the requirements for access to IMF credit. The justification required for the granting of a loan would of course be just as necessary as at present. Also, the IMF would continue to establish the terms of the programme, in accordance with its assessment of the borrower's financing needs and repayment capacity. Finally, once the programme were agreed and in effect, purchases would continue to be subject to compliance with the conditionality established therein.

The representation of the cost of this hypothetical single facility, which depends on its two variables, in three dimensions[4] gives rise to a function like the one in the left-hand panel of Figure 2. Also, the projection of this function on the lower plane (t,V), on which the axes reflect the programme volume and duration variables, generates a map of *indifference curves or isocosts,* in which the greater the distance from the origin the higher the cost (see right-hand panel of Figure 2). This map could be helpful for the decision-taking of a country in difficulty, which would be able to study, a priori, the cost of the different combinations of time and volume sufficient to meet its needs.

The terms on which the IMF considers it appropriate to provide financing would be reflected graphically in the degree of openness of the cup. More stringent conditions, i.e. more expensive financing, would give rise to a more vertical cup and vice versa. Likewise, market financing conditions can be represented by another corolla (see Figure 3). In crisis situations, the latter would always be contained by the cup of IMF financing since, given its public good nature, the IMF will always offer easier terms than the market.

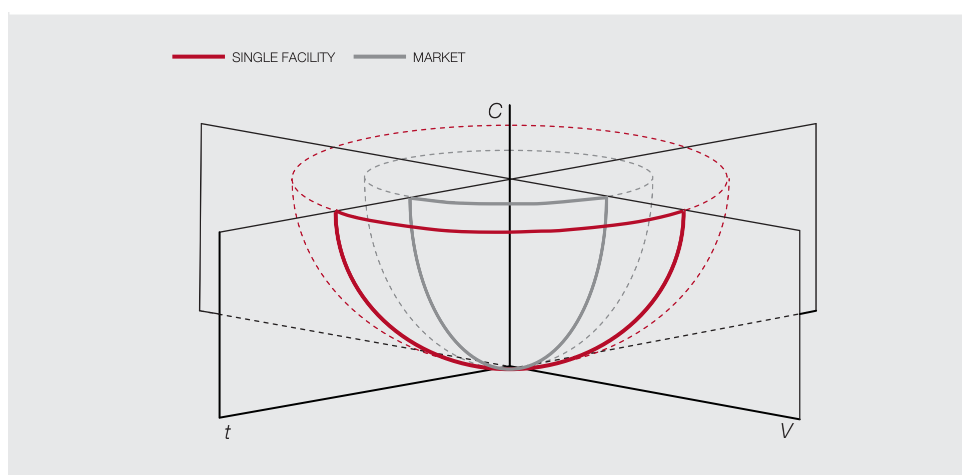
4. For the sake of clarity, the function is assumed to be continuous and symmetric, i.e. costs grow in proportion to volume and time.

GRAPHIC REPRESENTATION OF A SINGLE FACILITY | FIGURE 2



SOURCE: Banco de España.

FINANCING TERMS | FIGURE 3



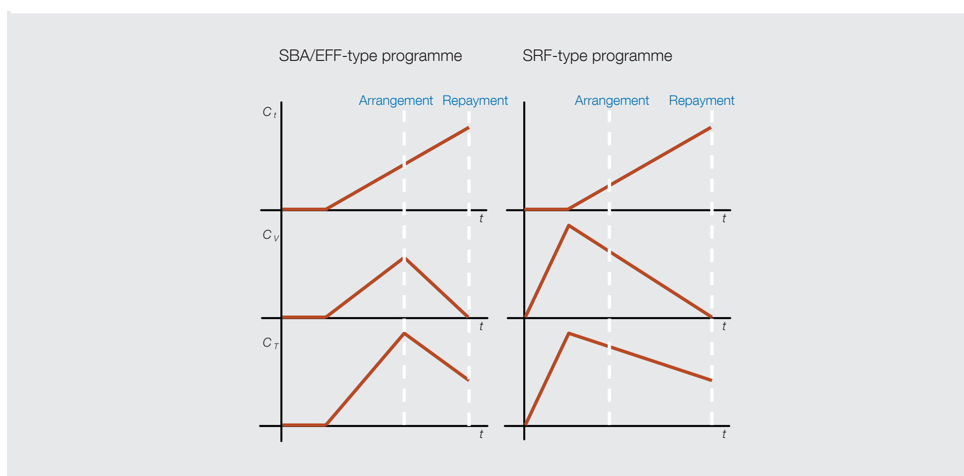
SOURCE: Banco de España.

PERIODS

Two basic periods are distinguished in IMF credit lines: the *arrangement period,* which is the period during which the country can make purchases up to the total amount granted, and the *repayment period,* i.e. the time within which the loan shall be fully repaid. The arrangement period of a single facility like the one described above could be determined in accordance with the conditionality associated with each programme, unlike the current arrangement periods, which are fixed for each facility. This option would increase flexibility.

Likewise, the repayment period could be set by the IMF in each case, in accordance with the borrower's needs and debt sustainability profile. As for the sequence of repayments, an orientative schedule of repurchases could be established to avoid excessive market reaction in the event of failure. Such cases would not constitute default, although the borrower would be required to justify the delay. This option would have a number of advantages; it would facilitate IMF liquidity forecasting and resource rotation; it would provide a date to which expectations (both of the country and the markets) regarding the completion of the programme could be anchored; it would permit those programmes with accumulated arrears to be identified and it would provide an additional incentive, along with those already incorporated in the single facility (via costs) and other elements of the lending framework (conditionality, *preferred creditor status*, etc.), for the appropriate use of the Fund's resources. It would not be necessary to maintain the distinction between expected and compulsory periods, since the combination of the orientative schedule and rising costs over time would be sufficient to avoid unnecessary

EVOLUTION OVER TIME OF THE COST OF A SINGLE FINANCIAL FACILITY (a) FIGURE 4



SOURCE: Banco de España.

a. Note that the origin does not represent a nil total cost (C = 0), but a total cost equal to the rate of charge described In the section entitled «current lending framework» (C = rc).

delays in the repurchases. Eliminating this distinction, which is not always well understood, would help to simplify the current lending mechanism.

Alternatively, it would be possible, at least in theory, to fix the repayment deadline only and to let the debtor country choose the repurchase sequence. This option would also involve trusting the structure of incentives described above to be sufficient for the borrower to return the amounts drawn down as soon as an improvement in its situation were to enable it to do so. This alternative would not give rise to alarm on the markets either, nor would it cast doubt on the actions and credibility of the Fund, given the absence of the schedule. Moreover, in the event that the programme were not capable of resolving the crisis, the country would have more room for manoeuvre to correct the imbalances without the need for a new arrangement.

EVOLUTION OF COSTS OVER TIME

Figure 4 illustrates two possible examples of how the cost of the single facility would evolve over time. In both cases, the total cost of the facility (C) would be obtained by aggregating the costs that rise with the duration of the programme (Ct) and those that increase with the volume drawn down (CV). For the sake of simplicity, the analysis considers a linear evolution of the use of credit, and therefore of the cost associated therewith. The arrangement and repayment periods are marked on the x-axis which represents time.

The left-hand panel shows the time profile of the cost of a programme under a single facility granted to address an external imbalance of the type currently covered by an SBA or EFF arrangement. After an initial grace period (marked by the absence of surcharges) C grows in line with the time elapsed and the volume drawn down, until the arrangement period ends, when the country can no longer make further purchases and, in principle, begins repayment. From that point, C diminishes, although not as sharply as CV, owing to the effect of the increase in the cost associated with the passage of time, Ct. As already explained, this cost associated with the total time elapsed is the distinguishing feature of a single facility with respect to an SBA or EFF arrangement and is the main additional incentive for early repayment.

The right-hand panel shows the time profile of the cost of a single facility when it replaces an SRF facility. Unlike in the previous case, C increases in proportion to CV, as a result of the

frontloading nature of this type of loan. Once market confidence has been restored and the foreseeable repayment period has therefore commenced, C diminishes, although less sharply than CV, again due to the effect of the cost associated with the passage of time, Ct. The distinctive feature of the single facility with respect to an SRF is the penalisation it introduces for the use of a large volume of financing in the early stages of the arrangement.

INTERACTION WITH OTHER ELEMENTS OF THE IMF'S LENDING FRAMEWORK

Preferred creditor status and programme conditionality

Apart from the incentives incorporated in the financial facilities, the IMF has two important lines of defence of its resources: preferred creditor status and programme conditionality. The former, implicitly recognised by the international financial community, preserves the Fund from credit risk and could effectively strengthen the granting of a single financial facility. The protection of the IMF's resources provided by conditionality is even more solid, as it is not based on a tacit multilateral agreement, but on compliance with a set of concrete measures upon which the continuity of the credit is conditional. The conditionality of the Fund would be included as an integral part of the functioning of a mechanism like the one mentioned above, in the same way as in the facilities available now. In support of this argument it should be noted that the structure of conditionality does not vary according to the type of facility and that its tools (prior actions, performance criteria, indicative targets, structural benchmarks, etc.) are common to all the programmes, although their presence and weight in each varies according to the type of crisis involved. Conditionality would, moreover, play a significant role when the length of the arrangement period of a single facility is determined.

Exceptional access framework

As already mentioned, the IMF does not, strictly speaking, grant credit until the country in difficulty has borrowed beyond its quota. Currently, access to the Fund's resources is subject to an annual limit of 100% and a cumulative limit of 300% of the country's quota. Credit beyond these limits is regulated by the 1983 *exceptional circumstances clause* and by the 2002 *exceptional access framework*, which lay down the criteria that must be fulfilled to gain access to financing beyond these limits. Despite its short life, the framework has been violated on various occasions, possibly as a consequence of its excessively rigid design. A facility like the one considered in this article would not overcome the limitations of the current framework, but neither would it conflict with it. A single facility, like the current facilities, could channel IMF resources beyond the normal access limits, provided that the country were to comply with the criteria mentioned or with such criteria as the IMF may decide to adopt in future. Moreover, its introduction would simplify the application of the framework, by not giving rise to a situation that varies according to the facility used. The flexibility of the facility and its cost structure, in particular the component that increases according to the volumes drawn down, should not be seen as offering a *blank cheque* to the borrowing country. Rather, these two elements serve the lender role attributed to the Fund more effectively.

Precautionary arrangements

IMF financial assistance is not only granted to resolve crises, but may also be precautionary. Precautionary arrangements are ordinary SBA and EFF arrangements, in which the authorities of the country declare, normally when signing the arrangement, their commitment to implement a programme supported by the Fund, with all its associated conditionality, and their non-binding intention not to make purchases during the arrangement period. The aim of this type of arrangement, like the cases in which it is used, is multifarious, although it normally has two applications: to cover a possible balance of payments imbalance or to reduce the impact of financial decoupling from the IMF. A single financial facility, capable of replacing all the Fund's facilities, could also fulfil the precautionary role that is sometimes given to SBA and EFF facilities and thus satisfy the same objectives at an appropriate cost. A single facility streamlining and simplifying the Fund's lending apparatus could also help improve the communication of precautionary arrangements, which are often not correctly interpreted by third parties.

The *labelling* of a single facility as precautionary would not raise substantial problems in terms of cost either. Precautionary granting would not involve any charges as long as the country were not to request resources from the Fund. If it were to, the facility would lose its precautionary nature and would be activated with a structure of costs such that they increase with the volume drawn down and with the time elapsed from the first drawdown.

Reserve Augmentation Line (RAL)

Apart from the use of instruments designed for crisis resolution for precautionary purposes, the debate on prevention focuses on the idea of designing and introducing specific lines for this function. A first attempt was the extinct Contingent Credit Line (CCL). Currently the possibility is being considered of introducing a new facility known as the Reserve Augmentation Line (RAL).

As conceived so far, the objective of the RAL would be to provide requesting countries with an *insurance* mechanism to protect them from a possible unfavourable change in financial conditions. Its most characteristic feature would be the possibility that countries with solid fundamentals would be able to obtain the right to make purchases if they were to fulfil certain prerequisites. In other words, the country would comply with ex ante conditionality in order to be able to draw down resources immediately, should it need them.

According to this initial conception, the RAL may be considered to have two dimensions. First there is the precautionary one, i.e. in the absence of the contingency. This would include the pre-qualification criteria, the system to assess compliance with such criteria and the duration of the insurance. Second there is the resolution dimension, which would come into play if and when the contingency occurred. In this respect, the design of the RAL envisages the definition of the applicable financial conditions and the level of access to resources. All the features included in this second group, which are in principle very similar to the terms of the current SRF, would be completely covered by a single facility. In fact, the features of the precautionary dimension form an *access policy* and would therefore be perfectly compatible with a mechanism like the one proposed. Before the contingency, a country could be considered to have applied for pre-qualification for the single financial facility, or to have gained access to this facility as a precautionary measure. From the time purchases are made, the single facility would work as described. We might therefore conclude that the single financial facility would replace the RAL's financing components and would be perfectly consistent with an access policy aiming to fulfil the RAL's insurance objectives.

Exit strategies

Exit strategies are basically required because of the perception of countries that it is difficult to abandon their financial relationship with the IMF and the security it entails without causing alarm on the markets. A priori, the influence of a single facility on this question would be positive or neutral. On the one hand, with a single financial facility, the current mechanisms which countries can rely on as an exit strategy (basically precautionary arrangements and Post-Programme Monitoring (PPM))[5] could continue to operate in exactly the same way as at present or their role could even be enhanced, to enable them to supervise and monitor the country's performance from the end of the arrangement period until the end of the repayment period. Also, a single facility would not interfere with the potential use of the RAL for this purpose, depending on its eventual design.

The establishment of a mechanism of this type would also open up new possibilities for borrowers of a trauma-free exit from their financial relationship with the IMF. The greater flexibility

5. The purpose of PPM is to provide additional supervision of the country's performance after the end of the arrangement and while the outstanding credit exceeds 100% of the quota.

for countries provided by the repayment periods of a single financial facility could be used as a strategy to smooth their exit in certain cases.

Lending into arrears (LIA) policy

The LIA policy basically establishes two conditions that should be fulfilled for the Fund to lend to countries in arrears to their private creditors. First, the IMF's financial assistance should be crucial to the success of the country's adjustment programme and, second, the country should be applying appropriate measures and *making a good faith effort* to reach a collaborative agreement with its creditors. This second condition has at least two elements: the country must i) maintain a confident dialogue with all its creditors from the moment a restructuring is deemed to be necessary until it is completed, and ii) share with them all appropriate, relevant and non-confidential information. As in the case of the exceptional access framework referred to above, the suitability of the design of the LIA policy is currently subject to debate. However, for the purposes of this article, justification of the IMF's involvement as lender in this type of situation is independent of how the financial assistance is given, so that the introduction of a mechanism like the one mentioned would not interfere in the LIA policy.

Conclusions

The strategic review being conducted by the IMF and the reform of its mechanism for generating revenues offer the perfect occasion to re-examine its lending framework and to identify any areas that need updating or strengthening.

With the passage of time and the emergence of new types of financial crisis, the IMF's lending mechanism has turned into a complex catalogue of financial facilities with an incentive structure that could be improved. The IMF's lending over the last 16 years has, moreover, been concentrated in just two financial facilities (SBA and SRF, especially the former), which have different cost setting systems (costs depend on the volume drawn down in the case of SBA arrangements and time elapsed in that of the SRF).

This article seeks to open a debate on this mechanism and to analyse the possibility of simplifying it, making its operation more flexible to adapt it to different types of need, increasing its potential attractiveness vis-à-vis other financing alternatives and giving it a solid incentive structure which promotes a use of resources, both in terms of volume and duration, more in line with borrowers' needs. This latter improvement would attempt to promote fund rotation, to stimulate the rapid adoption of corrective measures by debtor countries and to limit the potential risk of excessive indebtedness.

For this purpose the article studies the possibility of replacing the current range of financial facilities with a single facility, capable of fulfilling the functions currently attributed to the existing instruments and achieving the objectives mentioned above, with the added value of avoiding the possibility of undesired arbitrage across the various facilities. The cost of this line, which would rise with the volume of credit drawn down and the duration of the programme, would reward limited and short-term use of financing and would penalise loans above certain volume and duration thresholds that the IMF may consider inappropriate at any given moment.

A credit line like the one described would incorporate ad hoc arrangement and repayment periods according to the needs of the programme, which would provide greater flexibility and country ownership in the design of programmes, when adapting the IMF credit to their conjunctural situation. It should be stressed that, although a mechanism with these characteristics would tend to reduce the cost of credit in certain circumstances, and to make periods more flexible, its introduction would not entail any relaxation of the requirements for access to IMF financing, nor would it weaken the requirement for compliance with conditionality.

To conclude, without prejudice to a more detailed analysis, a scheme of this nature, besides increasing the clarity of the lending framework, offers the possibility of improving the incentives for borrower countries and reorientating them towards the achievement of the objectives mentioned above. At the same time, the introduction of a single facility would either boost IMF lending policies, or at least not come into conflict with them.

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