Background Note
The IMF Response to the Global Crisis: Meeting the Needs of Low-Income Countries

Over the past six months, as the global financial crisis has swept from developed to developing countries, the IMF has undertaken an unprecedented reform of its policies toward low-income countries (LICs), culminating in the announcement of significant new resources underpinned by new lending instruments. This wide-ranging effort has transformed the Fund's relationship with member countries that are striving to overcome the impact of a crisis not of their own making. The initiative reflects close consultation with LICs and responds to the call of the G20 heads of state for swift policy action to meet the needs of the developing world. The reform effort has sharply increased the money available to these countries, overhauled the Fund's lending framework, streamlined loan conditionality, and reduced to zero the interest charges on concessional IMF loans for low-income countries through 2011.

The global financial crisis originated in the advanced economies and spread first to emerging market countries. But a **third wave of the crisis** has threatened the remarkable economic achievements many LICs have made over the past decade. Early this year, an IMF paper on the impact of the crisis on LICs warned that the financial crisis, coupled with the sharp rise of food and fuel prices in 2007, had created much higher financing needs that the international community would have to meet. The IMF now is working to help countries keep millions from sliding back into poverty.

The IMF response is built around a sharp increase in concessional lending to low-income countries—an increase over the past year to four times historical levels. In sub-Saharan Africa, new IMF lending commitments from January to mid-July 2009 reached $2.7 billion compared with $1.1 billion for the whole of 2008.

Building upon this effort, the IMF has announced additional initiatives:

- The IMF has agreed to **increase concessional resources** available to LICs to meet projected demand of about $17 billion through 2014. Lending in 2009 and 2010 alone is expected to reach up to $8 billion, thereby exceeding the G20 call for additional lending of $6 billion over the next 2 to 3 years. The new resources will include revenue from envisaged IMF gold sales.

- Low-income countries will receive exceptional **relief on all interest payments** due to the IMF through 2011 on the IMF's concessional lending instruments.

- Future Fund financial support will include **permanently higher concessionality**, with a mechanism for updating interest rates after 2011.

- The Fund's membership also has approved a $250 billion allocation of Special Drawing Rights (SDRs) that will be distributed to all member countries according to their quotas in the IMF. This means an allocation of more than **$18 billion of SDRs to LICs** to bolster their foreign exchange reserves and alleviate financing constraints.

- The IMF has introduced a **new architecture of concessional financing** facilities. They now will be more flexible and tailored to the increasing diversity of LICs. The new instruments are: the **Extended Credit Facility**, which provides flexible medium-term support; the **Standby Credit Facility**, which addresses short-term and precautionary needs; and the **Rapid Credit Facility**, which offers emergency support with limited conditionality. The new instruments are established under the umbrella of a new Poverty Reduction and Growth Trust.

- The new architecture is coupled with reforms to **borrowing limits** for LICs that will help them meet the financing needs of the crisis. In broad terms, these reforms amount to a doubling of average annualized access limits. The policy is in line with a decision to increase access limits for other IMF member countries.

- **Conditionality in IMF programs** has been streamlined to focus on core objectives. This flexibility applies particularly to structural reforms. Countries will not need to seek waivers if such reforms are not completed by a specific date.

- This new architecture of lending instruments for LICs places a strong emphasis on **poverty alleviation and growth**, across all of them. Programs will include specific targets to safeguard social and other priority spending.

- Increased IMF financial assistance has been coupled with programs that include **higher levels of pro-poor spending** in a majority of LICs**.** Fund programs have accommodated increased fiscal deficits, and often higher spending, to meet the challenges of the food and fuel and global financial crises. Recent programs have also often contained looser monetary policy and higher inflation targets.

By adopting these measures, the IMF has transformed its relations with low-income countries and responded directly to an international consensus on how to respond to the global crisis. In March 2009, Tanzania President Jakaya Kikwete, IMF Managing Director Dominique Strauss-Kahn, and former UN Secretary-General Kofi Annan convened a conference in Dar-es-Salaam to address these issues. The IMF committed at the meeting to increase its support for Africa with more financing, greater flexibility, enhanced policy dialogue, and a further strengthening of Africa's voice in the Fund. These commitments were conveyed to the G20 London Summit in April 2009, where Mr. Strauss-Kahn also asked the donor countries to facilitate a major increase in the Fund's concessional lending.