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IMF LENDING: THE EMPIRICAL EVIDENCE

Graham Bird

Working Paper 70

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Introduction

Leading on from *Working Paper* No. 64,[1] we now examine various empirical aspects of lending by the International Monetary Fund. Rather than attempting to provide evidence relating to every aspect of Fund lending, we instead try to identify the major trends that may be discerned. We also try to draw on the empirical evidence where this helps to resolve some of the analytical questions raised in the earlier paper.

Concentrating initially on the General Resources Account (GRA) and other special facilities for low income countries, the paper investigates the size and pattern of Fund lending, disaggregating this both over time and across countries. Having provided an overall picture of Fund lending, we then use the available evidence to see whether it is possible to come up with a statistically secure explanation of what determines the use of Fund resources, incorporating both global and country-specific factors.

Next we look at the relative importance of Fund lending both in terms of the size of payments deficits which member countries have been facing and in terms of financial flows from other sources.

We then move on to examine the concessionality of Fund lending and explore the extent to which this may be used to offer increased assistance to low income countries.

A concluding section examines the SDR Account and investigates the extent to which developing countries have been net users of SDRs.

The size and pattern of Fund lending

As noted in *Working Paper* 46,[2] the IMF has in some ways 'changed partners' in the period since the mid-1970s. At the beginning of the 1970s industrial countries were still drawing substantial amounts from the Fund and often accounted for the clear majority of Fund lending in value terms. Even as late as 1974–77 industrial countries were important clients of the Fund with the United Kingdom and Italy making relatively large drawings. During the 1980s, however, Fund lending was exclusively to developing countries, with the economies of Eastern Europe becoming important users of Fund finance at the beginning of the 1990s. Table 1 succinctly shows the evolving pattern of net credit from the Fund during 1982–91. At the beginning of the decade the Fund was most heavily involved in lending to

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[1] Bird, Graham (1992) *IMF Lending: the analytical issues*, Working Paper 64, London: Overseas Development Institute.

[2] Bird, Graham (1991) *The IMF in the 1990s: forward to the past or back to the future*, Working Paper 46, London: Overseas Development Institute.

Table 1: Developing countries: net credit from IMF, 1982–91* (in billions of US dollars)

	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Developing countries	**6.9**	**11.0**	**4.7**	**–**	**–2.7**	**–5.9**	**–5.0**	**–2.4**	**–1.8**	**4.6**
By region										
Africa	2.0	1.3	0.6	0.1	–1.0	–1.1	–0.3	0.1	–0.6	0.2
Asia	2.3	2.5	0.3	–1.0	–0.9	–2.4	–2.4	–1.1	–2.4	1.9
Europe	1.3	1.1	0.5	–0.6	–0.9	–1.6	–1.3	–1.1	–	3.5
Middle East	–0.1	–	–	–	–0.1	0.1	–0.1	–	–0.1	–
Western Hemisphere	1.5	6.1	3.4	1.5	0.1	–0.8	–0.9	–0.2	1.2	–1.0
By predominant export										
Fuel	0.2	1.7	1.3	–	0.8	1.0	–	2.0	2.7	0.3
Non-fuel exports	6.7	9.3	3.5	–	–3.6	–6.8	–5.0	–4.4	–4.5	4.3
Manufactures	3.6	4.7	3.0	–1.0	–1.5	–5.1	–3.8	–3.4	–2.5	4.8
Primary products	1.2	3.4	0.6	1.1	–0.5	–0.3	–0.4	–1.0	–0.9	–0.8
Agricultural products	0.8	2.4	0.1	1.0	–0.6	–0.2	–0.2	–0.9	–0.4	–0.5
Minerals	0.4	1.0	0.4	0.1	0.1	–0.1	–0.2	–0.2	–0.5	–0.3
Services & private transfers	0.6	0.6	–	–0.2	–0.6	–0.6	–0.6	0.2	–0.4	0.3
Diversified export base	1.5	0.5	–	–	–1.0	–0.8	–0.3	–0.1	–0.7	0.1
By financial criteria										
Net creditor countries	–	–	–	–	–	–	–	–	–	–
Net debtor countries	6.9	11.0	4.7	–	–2.7	–5.9	–5.0	–2.4	–1.8	4.6
Market borrowers	2.0	5.9	4.0	0.9	0.3	–2.4	–1.8	–0.1	0.6	2.1
Diversified borrowers	3.1	3.6	0.4	–0.7	–2.0	–2.7	–2.3	–2.0	–1.8	1.8
Official borrowers	1.8	1.6	0.3	–0.2	–1.0	–0.8	–0.8	–0.2	–0.6	0.6
Countries with recent debt-servicing difficulties	4.0	7.9	3.8	1.4	–1.5	–2.6	–2.1	–1.3	0.6	–0.5
Countries without debt-servicing difficulties	2.9	3.1	0.9	–1.5	–1.3	–3.2	–2.9	–1.1	–2.4	5.1
Miscellaneous groups										
Sub-Saharan Africa	0.7	1.3	0.5	–	–0.4	–0.5	–0.2	–0.4	–0.3	–
Four newly industrialising Asian economies	0.1	0.2	0.3	–0.2	–0.1	–1.2	–0.5	–	–	–
Small low-income economies	1.0	1.2	0.2	–0.2	–0.9	–0.6	–0.3	–	–0.6	0.4
Fifteen heavily indebted countries	2.2	6.3	3.3	1.6	–0.2	–1.3	–1.4	–0.8	0.6	–1.4

Note: *Includes net disbursements from programmes under the General Resources Account, Trust Fund, structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF). The data are on a transactions flow basis, with conversions to US dollar values at annual average exchange rates.

Source: *World Economic Outlook*, IMF, Washington, May 1991 and May 1992.

African and Asian developing countries, although only the minority of loans to Africa went to countries that were sub-Saharan. Moreover, lending was not in the main going to primary product producing countries. In fact three times as much credit was provided to developing countries where manufactures constituted the predominant export.

The debt crisis in 1983 made a radical impact on the pattern of Fund lending. The highly indebted countries of Latin America now become major users of Fund finance, while loans to Africa actually fell. Indeed, in summary terms, the entire increase in Fund credit between 1982 and 1983 was accounted for by the fifteen most heavily indebted developing countries, with most of these to be found in Latin America. Other aspects of Table 1 confirm the impact of the debt crisis on Fund lending; credit to 'market borrowers' increased by almost 300 per cent, and credit to countries with recent debt servicing difficulties rose from $4.0 billion in 1982 to $7.9 billion in 1983, while credit to those without such difficulties rose merely from $2.9 billion to $3.1 billion. Clearly there seems to be adequate proof that the debt crisis opened a new chapter in relations between the IMF and developing countries.

However, as things turned out, 1983 was a peak year for Fund lending. Net credit to less developed countries fell from $11.0 billion in 1983 to only $4.7 billion in 1984 and thereafter to zero in 1985. This general pattern existed across all categories of developing countries, although the zero figure in 1985 concealed small positive net credits to developing countries in the Western Hemisphere, in essence the heavily indebted countries, and net repayments to the Fund by Asian and European LDCs. Certainly, then, the relatively high net flows of finance from the IMF to developing countries in 1983 were not sustained. Indeed, for the rest of the period from 1986 to 1990, developing countries paid more back to the Fund than they received in new loans; this was the situation for both debt distressed and other developing countries alike.

By 1991 net credit to developing countries was positive again but there were significant regional variations. While net credit to Eastern Europe was $3.5 billion, net credit to all other developing countries was only $1.1 billion. Within this latter total, net credit to African LDCs was a modest $0.2 billion, and net credit to LDCs in the Western Hemisphere and heavily indebted categories was again negative, following a year when positive flows seemed to have been re-established.

Further information on IMF lending is shown in Table 2 which provides data on commitments which were outstanding rather than net credit. Table 2 again shows the collapse in Fund lending in the mid-1980s from the peak reached in 1983. However, it also shows how the trough in lending running from 1985 to 1989 appears itself to have been a temporary interlude, with outstanding commitments rising sharply in 1989/90 and continuing to rise more smoothly up until the end of 1991. Yet even then, at almost SDR 18 billion, outstanding commitments were some way below the SDR 25 billion level reached in 1983. Moreover, while the stock of outstanding commitments increased over the entire 1989–91 period, the flow of *new* commitments fell by about 50 per cent in 1990/91 by comparison with the previous year. Stock figures can therefore give a misleading impression of

Table 2: Composition of IMF lending by facility, 1980/81 to 1991/92[a]

	Commitments during the year									Total outstanding commitments at year-end								
	Stand-bys		*EFF*		*SAF*		*ESAF*		*Total*	*Stand-bys*		*EFF*		*SAF*		*ESAF*		*Total*
	SDRM	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*	*%*	*SDRM*
1980/81	5,197	50	5,221	50	–		–		10,419	5,331	49	5,464	51					10,795
1981/82	3,106	28	7,908	72	–		–		11,014	6,296	39	9,910	61					16,206
1982/83	5,450	39	8,671	61	–		–		14,121	9,464	38	15,561	62					25,025
1983/84	4,287	98	95	2	–		–		4,382	5,448	29	13,121	71					18,569
1984/85	3,218	100	–		–		–		3,218	3,925	34	7,750	66					11,675
1985/86	2,123	72	825	28	–		–		2,948	4,076	83	831	17					4,907
1986/87	4,118	89	–	–	488	11	–		4,605	4,313	80	750	14	327	6			5,391
1987/88	1,701	58	245	8	1,009	34	–		2,956	2,187	48	995	22	1,357	30			4,540
1988/89	2,956	65	207	5	441	10	955	21	4,560	3,054	46	1,032	16	1,566	24	955	14	6,608
1989/90	3,249	29	7,627	67	45	–	415	4	11,337	3,597	26	7,834	56	1,110	8	1,370	10	13,911
1990/91	2,786	50	2,338	42	53	1	426	8	5,603	2,703	18	9,597	65	539	4	1,813	12	14,652
1990/91[b]	–		–		–		–		–	5,449	31	9,666	55	101	1	2,499	14	17,716

Notes: [a] Years ending 30 April.
[b] As at 31 December 1991.

Source: IMF *Annual Reports* and *Memorandum*, 3 February 1992.

current flows.

Information on the classification of IMF lending by individual facilities is also contained in Table 2. Significant trends may, again, be identified. At the beginning of the 1980s Fund lending was fairly equally divided between stand-bys and Extended Fund Facility (EFF) loans. But most of the expansion in lending up to 1983 occurred under the EFF with over 70 per cent of new commitments in 1981/82 being under this facility. The situation then changed rapidly and radically and EFF loans accounted for only 2 per cent of new loans in 1983/84. With some exceptions in 1985/86, the EFF continued to play a very modest role up until the end of the 1980s. During 1988/89, for example, 65 per cent of new lending by the Fund was in the form of stand-bys, 21 per cent in the form of ESAF loans, 10 per cent in SAF loans, and a mere 5 per cent in the form of EFF loans. However, the proposition that the EFF window was being allowed to close was challenged by events at the end of the 1980s. In 1989/90 almost 70 per cent of new commitments were entered into under the auspices of the EFF, and, by the end of 1991, 55 per cent of outstanding Fund lending was under this facility.

To what extent does the changing relative importance of individual facilities reflect the country composition of Fund lending? Is it that low income countries tend to draw under the SAF and ESAF arrangements, while other developing countries draw under stand-bys and the EFF? As at the end of 1991, 24 per cent of IMF commitments were to low income countries, 55 per cent to other developing countries, and 21 per cent to former Comecon countries. Examination of a full record of those countries that borrowed from the IMF during 1985–1990 shows that, although extended arrangements have existed with some low income countries such as Ghana and Malawi, EFF lending has been dominated by loans to Brazil, Chile, Mexico and Venezuela. Loans to these countries have frequently absorbed a very large proportion of total IMF lending. In 1990, for example, each of the EFF loans to Mexico and to Venezuela individually exceeded the total stand-bys agreed with nineteen other countries. Again, each of these loans on its own easily exceeded the total of SAFs and ESAFs agreed with 22 countries: the four arrangements negotiated with Eastern European countries during 1985–90 (two of which were with Hungary) all took the form of stand-by arrangements.

While the changing geographical composition of Fund use certainly appears to influence the extent to which individual facilities are used, it is also the case that the Fund's own attitudes to individual facilities has changed over time and this has probably also affected their usage.

For some time after the early 1980s the Fund's management had considerable scepticism regarding the EFF, and this no doubt had some bearing on the extent to which the facility was used.

A slightly different perspective on the significance of individual facilities is provided if we further consult the number of arrangements in effect rather than the value of the resources committed. Data regarding this aspect of Fund lending is presented in Table 3. Clearly observable is the diversification away from the almost exclusive use of stand-bys since 1985, when there were 27 stand-bys in effect and only three EFF arrangements. By 1990, although stand-bys (19) accounted for the

Table 3: IMF arrangements in effect as of financial years ended April 30, 1953–90

	Number of arrangements as of April 30					*Amount committed as of April 30 (in millions of SDRs)*				
Financial year	*Stand -by*	*EFF*	*SAF*	*ESAF*	*Total*	*Stand -by*	*EFF*	*SAF*	*ESAF**	*Total*
1953	2				2	55.00				55.00
1954	3				3	112.50				112.50
1955	3				3	112.50				112.50
1956	3				3	97.50				97.50
1957	9				9	1,194.00				1,194.78
1958	9				9	967.53				967.53
1959	11				11	1,013.13				1,013.13
1960	12				12	351.38				351.38
1961	12				12	416.13				416.13
1962	21				21	2,128.63				2,128.63
1963	17				17	1,520.00				1,520.00
1964	19				19	2,159.85				2,159.85
1965	23				23	2,154.35				2,154.35
1966	24				24	575.35				575.35
1967	25				25	591.15				591.15
1968	31				31	2,227.36				2,227.36
1969	25				25	538.15				538.15
1970	23				23	2,381.28				2,381.28
1971	18				18	501.70				501.70
1972	13				13	313.75				313.75
1973	12				12	281.85				281.85
1974	15				15	1,394.00				1,394.00
1975	12				12	337.25				337.25
1976	17	2			19	1,158.96	284.20			1,443.16
1977	17	3			20	4,672.92	802.20			5,475.12
1978	19	3			22	5,075.09	802.20			5,877.29
1979	15	5			20	1,032.85	1,610.50			2,643.35
1980	22	7			29	2,340.34	1,462.85			3,803.19
1981	22	15			37	5,331.03	5,464.10			10,795.13
1982	23	12			35	6,296.21	9,910.10			16,206.31
1983	30	9			39	9,464.48	15,561.00			25,025.48
1984	30	5			35	5,448.16	13,121.25			18,569.41
1985	27	3			30	3,925.33	7,750.00			11,675.33
1986	24	2			26	4,075.73	831.00			4,906.73
1987	23	1	10		34	4,313.10	750.00	327.45		5,390.55
1988	18	2	25		45	2,187.23	995.40	1,357.38		4,540.01
1989	14	2	23	7	46	3,054.05	1,032.30	1,566.25	954.97	6,607.57
1990	19	4	17	11	51	3,597.02	7,834.40	1,109.64	1,370.20	13,911.26
1990 Dec.	17	4	10	14	45					

Note: * Includes undisbursed amounts under SAF arrangements that were replaced by ESAF arrangements.

Source: IMF *Annual Report*

single largest number of arrangements, SAF (17) and ESAF (11) loans were also represented strongly. Some doubt about the resurgence in the use of the EFF is cast by the figures in Table 3. The increasing relevance of the EFF between 1976 and 1981 is easy to see, as is the subsequent decline in its use up to 1987, by which time only one EFF arrangement was in effect. But in the period 1988–90 the number of EFF arrangements hardly rose dramatically. Consistency between the data in Table 3 and Table 2 requires that each of these EFF arrangements must have had a substantial value and, as implied earlier, this is indeed the case. In 1990 the average value of each EFF in effect was SDR 1,958.5 million whereas the average value of stand-bys was SDR 189.3 million, of SAFs was SDR 65.3 million and of ESAFs was SDR 124.7 million.

The range of IMF facilities so far described all involve a high degree of conditionality. Reforms to the Fund's Compensatory Financing Facility (CFF) have, however, also increased the degree of conditionality attached to what was historically a relatively low conditionality lending window. While expected to co-operate with the Fund in finding solutions to their payments difficulties, countries which experienced export shortfalls which were largely beyond their control had reasonably automatic and rapid access to finance through the CFF. In the mid-1970s the CFF represented a relatively important source of Fund finance for developing countries. Even in 1982 drawings under the CFF accounted for some 30 per cent of total drawings on the Fund. However, an internal review of the CFF in 1983 resulted in stricter guidelines for judging 'co-operation' and reduced access limits to the facility. Most independent analyses suggest that these changes meant that the CFF was no longer a low conditionality facility, and 1984 saw a significant decline in drawings under it.[3] With the exception of 1987, drawings under the CFF (and the CCFF as it became) never rose above $1 billion, and by the end of 1990 they were barely greater than $1 million. The pattern of net drawings by developing countries under the CFF/CCFF is shown in Table 4. Net purchases were positive for 1980–83 but were negative during 1984–88. The geographical pattern of drawings across developing countries approximately matches the pattern of drawings in general with African developing countries being the principal users of the CFF in 1981 and 1982, but with developing countries in the Western Hemisphere taking over this role thereafter, making net positive drawings under the facility up until 1985.

Certainly it would seem that the evidence on the use of the CFF, and yet more so the CCFF, is consistent with the view that increasing conditionality has made the facility less attractive to potential users.

The only remaining lending facility to examine is the Buffer Stock Financing Facility (BSFF), but its use during the 1980s has been so low as hardly to warrant mention. During the entire 1980–90 decade only US $0.5 billion were drawn under the BSFF, and there were zero net drawings in eight of the eleven years in this

[3] For an analysis of the CFF and a discussion of the 1983 review see Bird (1987) and Dell (1985). Bird (1990) provides an early critical assessment of the CCFF.

Table 4: Net purchases under the CFF
(SDR million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
All countries	-58.4	480.1	2126.2	2130.9	-48.8	-492.3	-1583.1	-1029.2	-492.2	130.6
Developing countries	290.7	675.7	2163.1	1872.9	-103.4	-492.3	-1572.3	-882.7	-315.4	130.6
Industrial countries	-349.1	-195.6	-36.9	258.0	54.6	-	-323.4	166.0	-176.8	-
Africa	-46.6	231.2	1002.7	296.4	-98.3	-97.3	-489.6	-510.3	45.4	134.3
Asia	381.4	280.3	402.1	400.3	-98.8	-587.7	-160.8	247.4	-239.5	-168.6
Europe	212.8	112.5	-37.4	-222.6	-254.3	-168.3	-51.4	-36.0	-	-
Middle East	-81.0	-57.1	-36.2	-27.2	-	57.4	-	-	-21.5	10.7
Western Hemisphere	-175.9	108.8	831.8	1425.9	347.9	303.6	-870.5	-583.7	-99.9	154.2
Memo: Oil exports	-	-	-	360.0	-	-318.0	-	462.9	-42.0	315.2
Non-oil dcs	290.7	675.7	2163.1	1512.9	-103.4	-174.3	-1572.3	-1345.6	-273.5	-184.6

Source: *International Financial Statistics Yearbook, 1990*

period.

The relatively low drawings under both the CCFF and the BSFF raises the question of whether they are facilities worth having. The principal distinguishing feature of the CFF as a low conditionality facility has been lost, while the BSFF is essentially redundant. In such circumstances it might seem sensible either to rethink the role of the CCFF and endeavour more clearly to distinguish it from other IMF facilities, or, if this is not done, simply to amalgamate it with stand-bys, EFFs and structural adjustment lending.[4]

Before moving on to offer some interpretation of the trends observed above, it is relevant to explore two other aspects of Fund lending.

Some analysts have interpreted references in the Fund's Articles of Agreement to the 'temporary' and 'revolving' character of Fund lending as implying that the Fund is a credit union (Kenen, 1985). But is it the case that Fund involvement is

[4] It may be remembered that the CFF was designed to provide finance at low conditionality to help countries cope with the BoP implications of temporary export shortfalls. The CFF provided finance largely unconnected with adjustment. The logic of the CFF was related to export instability rather than any deterioration in the terms of trade in developing countries. While many LDCs have continued to experience an adverse movement in their terms of trade the available evidence also continues to suggest that there is significant instability about this trend.

temporary? Or, on the other hand, does the Fund tend to have prolonged relationships with the countries to which it lends? Evidence quoted in *Working Paper* 46 from Goreux (1989) showed how low income countries in particular find it difficult to disengage themselves from the Fund having once turned to it for financial assistance. Some low income countries have had outstanding credit from the Fund for almost 30 consecutive years. Indeed Goreux discovered that 21 countries had had credit outstanding from the Fund for in excess of 14 years. A similar picture of frequent use of IMF resources by some countries is presented in Killick and Malik (1992). Such continuous involvement by the Fund clearly challenges one of the basic tenets of its operations. But is prolonged financial support by the Fund limited only to low income countries? Chart 1 provides an answer to this question by showing the number and time duration of IMF stand-by arrangements running from 1985 to 1990. During this period 47 countries negotiated stand-bys. Of these 25 countries had only one stand-by, but the remaining 22 had at least two and sometimes three. In some of the cases where only one stand-by was arranged, drawings on the Fund were also made under other facilities. Mexico, for example, while having only one stand-by covering the end of 1986, 1987 and the beginning of 1988, also had extended arrangements which covered 1984–85 and 1989–92. Mexico was therefore involved with the Fund throughout almost the entire period. Indeed of the 25 countries which had only one stand-by, five drew resources from the IMF under its other facilities as well. Six out of the ten countries which had three stand-by arrangements between 1985 and 1990 were low income countries, but four were not.

This evidence seems to confirm that the image of the Fund coming into a country, offering swift financial support, helping to turn the balance of payments around, and then getting out, is purely and simply wrong. Moreover a relationship which spans a number of years is not purely a feature of the Fund's dealings with low income countries. It applies to better-off developing countries as well, and seems likely to apply to the economies of Eastern Europe.[5]

One final aspect of Fund lending which deserves attention is the growing problem of arrears. Having never previously been a worry for the IMF, during the 1980s and particularly towards the end of the 1980s arrears became a serious issue (see Table 5). By 1990, eleven countries had obligations that were overdue by at least six months amounting to over SDR 3 billion. Indeed in eight of these cases the arrears covered a period of more than three years. Two aspects of the problem are noteworthy. First, the IMF was now exposed to the delays in repayment that had been experienced by other creditors and this could do little other than influence its own lending policies. The Fund had to try and maintain its monetary reputation, and arrears did not help. The claim that conditionality was necessary to ensure

[5] Further confirmation of the longevity of the Fund's involvement with developing countries is contained in Conway (1991). From a sample of 53 countries that participated in stand-by agreements with the Fund during 1977–86, 30 had Fund agreements in operation for five years or more.

Chart 1: Persistence of Fund involvement in developing countries, 1984-92

Stand-bys	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Argentina	12—		—3	7—	—9	11—		—3	
Belize	12—		—3						
Central African Republic		9—		—3 6—	—5				
Costa Rica		3—	—4	10—		—3 5—	—5		
Congo			8—		—8		8—		—5
Côte d'Ivoire		6—	—6 6—		—6	11—		—4	
Dominican Republic		4—	—4						
Ecuador		3—	—3		1—	—2 9—		—2	
Equatorial Guinea		6—	—6						
El Salvador							8—	—8	
Egypt				5—	—11				
Gabon			12—		—12	9—		—3	
Gambia			9—	—10					
Ghana		8—	—12	10—	—10				
Guinea				2—	—3 7—	—8			
Guyana							7—	—7	
Guatemala					10—		—2		
Hungary					5—	—5			
Haiti						9—	—12		
Honduras				3—	—5		7—	—8	
Jamaica		7—		—5	9—	—11—	—5—	—5	
Jordan						7—		—1	
Kenya		2—	—2		2—	—7			
Korea		7—		—3					
Liberia	12—		—6						
Madagascar		4—	—4 9—		—2—	—7			
Mauritania		4—	—4—	—4					
Morocco		9	12	2	3 8—	—12	7—	—8	
Nepal		12—		—4					
Malawi					3—	—5			
Mexico			11—		—4				
Niger	12—	—12—	—12—	—12					
Panama		7—		—3					
Philippines	12—		—6 10—		—4				
Senegal		1—	—7	10—	—10				
Somalia		2—	—2	6—		—2			
Sierra Leone			11—	—11					
Pakistan					12—		—11		
Papua New Guinea							4—	—6	
Poland							2—	—3	
Thailand		6—		—3					
Toga		5—	—5 6—		—4—	—4			
Tunisia			11—		—5				
Trinidad & Tobago						1—	—2 4—	—3	
Yugoslavia		5—	—5		6—	—6	3—	—9	
Zaire			5—		—3–5	6—	—6		
Zambia	7—		—4						

Chart 1: Persistence of Fund involvement in developing countries, 1984-92 (continued)

Extended arrangement	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Brazil	—	—	2						
Chile		8	—	—	8	8			
Ghana				11	—	—	11		
Malawi	—	—	9						
Mexico	—	12				5	—	—	5
Philippines						5	—	—	5
Tunisia					7	—	—	7	
Venezuela						6	—	—	6

Structural adjustment	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Burundi			7	—	—	6			
Bangladesh				2	—	—	2		
Bolivia			12	—	—	12			
Central African Republic				6	—	—	5		
Chad				10	—	—	10		
Dominica			11	—	—	11			
Gambia			9	—	—	9			
Ghana									
Guinea Bissau				10	—	—	10		
Guinea				7	—	—	7		
Haiti			12	—	—	12			
Kenya					2	—	—	2	
Lesotho					6	—	—	6	
Madagascar				8	—	—	8		
Mauritania			9	—	—	9			
Mali					8	—	—	8	
Niger			11	—	—	11			
Mozambique				6	—	—	6		

Table 5: Arrears to the Fund: members with obligations overdue by 6 months or more
(SDR million)

	Year ended April 30 1986	1987	1988	1989	1990	1991	1992
Amount overdue	489	1186.3	1945.2	2801.5	3251.1	3377.7	3496.0
Number of members	8	8	9	11	11	9	10
–of which:							
Gen Dept	418.9	1088.4	1787.7	2594.2	3018.6	3171.7	3274.1
Number of members	8	8	9	11	11	9	10
SDR Dept	12.2	15.6	25.1	35.0	44.7	27.3	37.5
Number of members	5	4	6	6	9	6	7
Trust Fund	57.9	82.3	132.4	172.3	187.8	178.7	184.3
Number of members	6	6	7	7	8	6	6
Number of ineligible members	4	5	7	8	10	8	8

Source: *IMF Annual Report 1990*

repayment and to guarantee the revolving nature of Fund lending which had sounded somewhat hollow now had to be taken more seriously. Second, the arrears almost exclusively related to low income countries or the poorer developing countries with this further suggesting that their economic problems are even more deep-seated and fundamental than those facing other developing countries. Again, the question arises as to how best the IMF may assist such countries and whether such assistance requires a higher concessionary element in terms of its interest charge and maturity structure or yet stricter conditionality or both.

Explaining Fund lending: broad factors

The pattern of IMF lending and trends in it may, in principle, be explained by a combination of demand-side and supply-side factors. On the demand side, countries will not need to borrow from the Fund, and, in any case, will be ineligible to do so, unless their balance of payments is in deficit. Even with a BoP deficit, countries may opt to avoid the Fund. They may prefer to pursue their own programme of adjustment independently of the Fund. Or, they may decide to finance their deficit by running down reserves or by borrowing from other sources. It may therefore be anticipated that the demand for loans from the Fund will tend to rise as BoP deficits become larger, as the nature of conditionality becomes more acceptable to potential borrowers, and as the availability of alternative sources of payments'

Fund will receive the Fund's help in obtaining bank credits and other loans to help clear its arrears. After this, and with its eligibility to draw on the Fund restored, it will enter into a regular financial arrangement with the Fund which provides enough resources to repay bridging credits. Part of the strategy is that the country can earn 'rights' to larger drawings from the Fund than would normally be available. While limited to countries that had protracted arrears at the end of 1989, such policy changes can clearly, at such a disaggregated level, have a significant impact on Fund lending.

This discussion illustrates why explaining the overall pattern of Fund lending is always likely to involve a complex combination of demand-side and supply-side factors; but can we offer any broad suggestions to help interpret the swings in lending during the 1980s that were observed in the previous section? At the outset it needs to be recognised yet again that the concept of Fund lending is itself complex. Are we talking about the stock of outstanding credit, the flow of new loans or net purchases, i.e. new loans minus repayments? Moreover should we be looking at the value of IMF lending or the number of loans? Some figures will illustrate the problem. In 1977 there were 20 high conditionality arrangements in effect which had a value in committed resources of about SDR 5.5 billion. By 1980 the number of arrangements had increased to 29 but the value of committed resources had fallen to under SDR 4.0 billion. By 1983, with 39 arrangements in place, commitments had increased dramatically to just over SDR 25 billion. Five years later, in 1988, there were 45 arrangements, but the value of commitments had plummeted to only SDR 4.5 billion. These observations suggest that it may be misleading and therefore unwise to examine Fund lending at too highly an aggregated level. A rise in the value of loans may go hand in hand with a fall in the number of loans as larger economies turn to the Fund and smaller countries turn away. In order to explain the overall picture we therefore need to explain the behaviour of each set of countries.

In terms of the period running from 1980 to 1992, three phases of Fund lending seem to warrant explanation. The first is the dramatic increase in lending that occurred around 1983. The second is the rapid and pronounced decline and subsequent trough in lending that occurred during 1985–89. And the third is the partial resurgence of lending in 1990 and thereafter.

In 1981 almost all IMF lending was to low income countries. Following the second oil shock and connected with the world recession both Asian and more particularly African LDCs experienced a marked decline in their current account balance of payments in 1981. In the case of Africa the deficit rose from $1,028 million in 1980 to $21,894 million in 1981. Adjustment could not quickly be achieved; holdings of international reserves were low; and private financing was meagre. Net total bond lending to Africa was actually negative in 1981, and international bank lending was only $2.4 billion, representing just over 10 per cent of net resource flows. Low income countries had nowhere to turn to help them with their payments needs apart from the IMF.

While IMF lending to low income countries remained fairly static up until 1983, there was a big increase in lending to Latin American countries. There can be little doubt that this was an exclusively demand-led phenomenon; indeed, if anything, supply-side factors, and in particular increased emphasis on conditionality, disfavoured increased lending. While normally this would have reinforced many Latin American countries reticence to borrow from the Fund, the environment was not normal. In 1983 the current account BoP deficit in developing countries in the Western Hemisphere had actually fallen quite dramatically from the levels of 1981 and 1982. Thus in 1983 it stood at $8,166 million by comparison with $41,641 millions in 1982. But it was their deteriorating debt situation, and more particularly the rapid decline in private financial flows associated with their falling creditworthiness which forced them into the Fund. Given the economic size of the indebted Latin American countries, there was a dramatic impact on the value of IMF lending, though not, one may note, on the number of loans.

To some extent a decline in new lending and net credits might have been expected to follow this sudden surge as countries began to repay the loans, but, as shown in Table 2, it was not only new loans but also outstanding commitments that fell. A combination of offsetting factors seems to have been at work. While private financial flows continued to decline for most developing countries, which would have led them to look for alternative sources of finance, two other factors pulled in the opposite direction. The first was the improvement in their current account balance of payments. As Table 7 reveals this strengthened significantly in 1984 and 1985 by comparison with 1983, and although it worsened in 1986 it was actually in surplus in 1987. This clearly had an impact on the demand for finance from the Fund. Second, although the Fund talked more about growth and about longer-term structural change there are some indications that conditionality became stricter as the 1980s progressed. There is, for example, evidence that the proportion of programmes which involved devaluation rose from just under 60 per cent in 1973–80, to 82 per cent in 1981–83, and practically to 100 per cent beyond 1983 (Polak, 1991). Devaluation has been notoriously unpopular with developing countries. There is a reasonable presumption that immediately following the debt crisis in late 1983 the IMF was anxious to avoid a general international banking and financial collapse. Although it was keen to emphasise adjustment as the appropriate response to the debt crisis, the strategic importance of the highly indebted countries encouraged it to relax conditionality in some cases. However, the evidence in general is that conditionality was rather strict during the 1980s. The conventional caricature of a Fund-supported programme which places heavy reliance upon controlling domestic credit creation and encouraging exchange rate devaluation became still more accurate (Edwards, 1989), and, at the same time, programme elements began to relate to a wider range of policy variables. Evidence suggests that the average number of performance criteria per programme rose from below six during 1968–77 to nine and a half between 1984 and 1987 (Polak, 1991). While from one point of view this could be interpreted as the Fund aiming for a richer and more appropriate mix of policy, it could also be seen by potential borrowers as a more detailed and deeper, and therefore more unwelcome, intrusion by the Fund in the design of domestic policy: something to be avoided if at all possible.

Table 7: Developing countries' balance of payments, 1980–91 (US$ billion)

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Developing countries	30.6	–43.3	–76.4	–42.7	–19.7	–18.2	–36.6	10.5	–13.7	–22.9	–30.3	–94.0
Africa	–2.2	–22.4	–21.6	–12.5	–7.8	–1.2	–10.7	–5.2	–10.4	–7.1	–2.2	–5.8
Asia	–14.4	–18.7	–16.0	–13.1	–3.5	–13.1	4.7	22.1	10.5	1.2	–1.0	–13.1
Europe	–15.6	–8.6	–3.3	9.4	10.4	5.5	8.3	13.7	10.3	–3.6	–25.0	–10.0
Middle East	92.5	48.5	4.8	–17.3	–17.8	–7.6	–22.5	–11.1	–14.8	–7.2	2.1	–45.7
Western Hemisphere	–29.8	–42.0	–40.3	–9.1	–0.9	–1.9	–16.4	–9.1	–9.2	–6.1	–4.2	–19.4

Source: IFS, *World Economic Outlook* (January 1986, June 1988, May 1992).

The only potential puzzle here is the counter claim often made by the Fund itself, and to some extent acknowledged by area experts, that developing countries in Latin America began to accept the wisdom of IMF orthodoxy. Why, if they accepted the thrust of IMF advice, did they not borrow more heavily from the Fund? Surely the perceived adjustment cost of Fund finance had been reduced? The answer could be twofold. First, the timing of the conversion to IMF orthodoxy could have occurred right at the end of the 1980s and at the beginning of the 1990s when there is an indication of increased lending activity by the Fund. Second, even where IMF advice seems more acceptable, countries still regard the Fund as a lender of last resort. The idea that countries rush to the Fund just as soon as they can in order to get access to its resources does not stand up to the empirical evidence. The moral hazard case against Fund lending discussed in *Working Paper* No. 64 appears to lack empirical support; a point to which we return later.

What certainly does seem to have been the case during to mid- to late- 1980s is that the Fund had unused lending capacity even though quotas had not been increased since 1983.[6] Lending arrangements (excluding the CCFF) as a percentage of quota fell from 214 per cent in 1980 to 115 per cent in 1982. Although they rose to 165 per cent in 1983, they declined dramatically thereafter falling to a mere 56 per cent in 1987 and 57 per cent in 1988.[7]

Turning now to the resurgence of lending at the beginning of the 1990s, it is difficult to see how this was linked to any marked change in conditionality,

[6] In June 1990, total IMF quotas stood at SDR 90,133 million for a membership of 151 countries, whereas in 1983 they had stood at SDR 89,236 million for a membership of 146 countries.

[7] In 1988, for example, only Mexico and Sudan were using GRA credit in excess of 300 per cent of their IMF quota. On average the figure for developing countries was 67.1 per cent.

although, as noted above, perhaps the Fund's major clients began to believe that IMF-type stabilisation programmes were unavoidable. Perhaps at the same time pronouncements by the Fund relating to structural adjustment and medium-term balance of payments viability created a softer image for the institution irrespective of the reality. Probably more important than either of these influences was the large deterioration in the current account balance of payments of developing countries as a whole; their combined deficit increasing from $19.0 billion in 1989 to $104 billion in 1991. The weakening BoP position was a feature of all regional sub-groups, affecting primary product producers as well as producers of manufactured goods, and straddling both developing countries with and without debt servicing difficulties. On top of this, increasing claims from Eastern European economies began to make a significant impact on the level and pattern of IMF lending. Again demand-side factors appear to predominate.

The economic characteristics of user countries

While it is possible to account generally for changes in the overall level of Fund lending, is it possible to be more precise about the economic characteristics of countries that do and do not draw on the Fund? Is it possible to quantify a demand function for loans from the Fund?

It might be anticipated that there will again be no straightforward answers to these questions; an expectation that turns out to be quite rational. There is a substantial and growing amount of evidence that use of Fund resources is a 'political' as well as an economic phenomenon. Countries with some form of economic or political 'clout' can, so it appears, often negotiate preferable terms to those that are weak and lack influence (Stiles, 1990; Killick and Malik, 1992). Knowledge that there are differences in bargaining power, and that this counts in terms of the deal that is struck, may be expected to exert an influence over the demand for IMF credits.

Moreover if, as Killick and Malik (1992) suggest, an application for financial support from the Fund is not infrequently associated with natural disaster such as droughts, hurricanes, cyclones, earthquakes, and floods it will remain rather difficult to predict the pattern of Fund lending until our ability to predict such meteorological and geological phenomena improves. Perhaps we shall end up with a sun-spot theory of Fund lending! But let us return to economics for the time being.

Attempts to model the demand for Fund loans have met with only rather limited success. One early study (Bird and Orme, 1981) used regression analysis to see whether a statistical relationship could be established between drawings on the Fund and key country economic characteristics. These included the balance of payments, the debt service ratio, the rate of inflation, per capita income, the level of reserves, the value of imports, and access to private bank credits. The model fitted the data well for 1976, with the estimated coefficients being consistent with *a priori* reasoning for all the explanatory variables except external debt, for which the coefficient was in any case not significantly different from zero. Developing countries seemed to draw more from the Fund as their BoP deteriorated and as their inflation rate accelerated. They seemed to draw less as they became richer. Private borrowing and borrowing from the Fund seemed to be complementary activities and, to this extent, some statistical support for a catalytic effect of IMF lending on private lending was discovered; although Bird and Orme also concluded that drawings from the Fund and the acceptance of the related conditionality was neither a necessary nor sufficient condition for access to private loans. However, the model broke down for subsequent years and was largely unsuccessful in predicting which developing countries would and would not draw from the Fund. Taking a sample of 27 developing countries which did not draw on the Fund, the model predicted zero drawings in only eight cases. Something seemed to be holding countries back. Generally the authors concluded that their model omitted important political, social and institutional factors.

A re-run of a similar econometric model for 1980–85 produces rather similar results; the coefficients on the inflation, income, and balance of payments variables are all statistically significant and have the anticipated sign. The coefficient on commercial lending is also significant but only weakly positive, casting some doubt on a strong catalytic effect. Overall, however, the equation fits the data rather badly and certainly forms a poor basis upon which to predict Fund drawings. Indeed a scaled version of the model yields a coefficient of determination of 23 per cent; 77 per cent of the variation in borrowing from the Fund remains unexplained by the model (Bird and Bedford, 1992).

Another study of the early 1980s reaches a broadly similar conclusion while using a somewhat different econometric methodology (Joyce, 1992). Here a logit analysis of 45 countries that did and did not negotiate programmes with the Fund is undertaken covering 1980–84. Estimation of the model suggests that countries that are relatively poor, are pursuing relatively expansionary domestic economic policies as proxied by the growth of domestic credit and the size of the government sector, have more acute payments problems, and possess depleted reserves, are more likely to turn to the Fund than are other countries. The mean values of the five significant macroeconomic variables are shown in Table 8. The inflation coefficient while positive is found to be insignificant; whether inflation results in drawings on the Fund would seem to depend upon whether it results in payments problems. Interestingly, while also statistically insignificant, private flows are found to be negatively related to Fund lending, thus perhaps hinting that IMF lending is a substitute for commercial lending and again calling into question the notion of a catalytic effect, at least during the early 1980s.

Also interesting is the fact that this study found IMF drawings to depend only insignificantly, but negatively, on the debt service ratio. This confirmed the finding made earlier by Bird and Orme and by the re-estimation of a modified form of their model for 1980–85. A high burden of debt does not seem necessarily to lead to drawings on the IMF. Even the suggestion that it is perceived creditworthiness rather than debt alone which influences drawings on the Fund finds scant statistical support, with Joyce discovering only weak and insignificant relationships between Fund lending and various measures of creditworthiness.

Although the individual coefficients may tell us something about the demand for Fund resources, the demand equation constructed by Joyce also has low predictive qualities and, in this respect as well, is consistent with the one estimated by Bird and Orme.

Support for the claim that econometric studies have yet to specify a satisfactory demand equation is also provided by attempts by Cornelius (1987a, 1987b) to estimate the demand for IMF credits by sub-Saharan and by other non-oil developing countries. In his study of Sub-Saharan Africa, Cornelius estimates his model over two sub-periods, 1975–77 and 1981–83. Although over the 1975–77 period it performs satisfactorily it throws up a number of slightly puzzling results. As in the Joyce study, inflation appears to have an insignificant effect on the demand for IMF credits, although the sign is negative. Of greater interest is that for both the 1975–77 and 1981–83 periods the coefficient on the balance of payments is insignificant. Indeed in the latter period the sign is negative. Also noteworthy is that Cornelius finds a negative coefficient on his private lending term in both sub-periods, thus again challenging the idea of a catalytic effect, at least as far as Africa is concerned. For the 1981–83 period he finds only one coefficient that is significantly different from zero, and the coefficient of determination suggests that key explanatory variables are missing. Attempts to provide these in terms of exchange rate policy proved difficult to model, but Bird and Orme had found that this did not appear to help to explain IMF drawings, and Cornelius is led to conclude, as they did, that IMF drawings are not a purely economic variable.

Further work by Cornelius (1987c) tests for the idea that variations in IMF conditionality have significant quantitative effects on the demand for IMF credits. Although Bird and Orme had suggested that many of the developing countries in

Table 8: Mean values of economic characteristics in countries borrowing and not borrowing from the IMF

Variable	*Programme countries*	*Non-programme countries*
Domestic credit growth (%)	35.5	28.4
Government spending/GDP	160	135
Current account/exports	318	225
Reserves/imports	185	315
Per capita GDP ($)	944	1491

Source: Joyce (1992)

their study which did not use Fund resources would have encountered only low conditionality had they drawn, and that there was therefore some other factor disinclining them from drawing, Cornelius finds that variations in the strictness of conditionality over time do exert a considerable impact on Fund lending. Having estimated an equation for the demand for Fund credits from a period when conditionality was fairly liberal, he calculates what level of drawings would have been expected in a year when conditionality was more strict. He finds that drawings are significantly lower than would have been expected on the basis of his estimated equation.

A final, as yet unpublished, study by Conway (1991) has discovered rather better, though still limited, predictive ability; with the explanatory variables used in his model accounting for almost 70 per cent of the variations in country participation in IMF-backed programmes. Based on a sample of 73 developing countries out of which 53 participated in an IMF-backed programme, and covering a period running from 1976–86, Conway attempts to explain participation in terms of a combination of past performance proxied by economic growth and the balance of payments, and the contemporaneous external economic environment, proxied by the terms of trade and the external debt burden. His results suggest that all these factors made a significant contribution to explaining observed participation, although he claims that credit rationing and sluggish export growth made participation more likely in the 1980s than beforehand. Participation he finds is negatively related to past economic growth and the recent strength of the balance of payments. It is also negatively related to real interest rates, with this perhaps suggesting credit rationing at lower rates, and to the terms of trade, but is positively related to the stock of external debt, in particular short-term debt. Using the share of output from the agricultural sector as a proxy for the level of development, Conway also discovers a negative relationship between participation in IMF-backed programmes and the level of economic development. It is also noteworthy that he identifies an inertial component to participation; those countries that have borrowed from the Fund in the past seem more likely to borrow from it in the future.[8] Of course while such persistent participation occurs it becomes difficult to disentangle the effects of economic performance on participation from the effects of participation on performance.

Where does all this leave us in terms of explaining IMF lending? Clearly there are some inconsistencies between the various studies, although probably no more than might have been anticipated given the different time periods investigated, country groupings examined, and econometric methodologies adopted. But, at the same time, some fairly general and durable conclusions emerge. First, drawings on the Fund are generally associated with prior adverse BoP performance with important elements in this being both domestic economic mismanagement and deteriorating terms of trade. Second, the IMF is a relatively more important source

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[8] This confirms the persistence of Fund involvement in many developing countries that was noted earlier.

of finance for relatively poor countries. Economic growth and development can wean a country away from the Fund. The Fund therefore needs seriously to consider the interface between development and the balance of payments. Third, the much vaunted catalytic effect finds rather patchy empirical support; at least in terms of the effect of IMF lending on lending by private financial markets. Although concerted lending may have linked IMF lending more directly to commercial lending in the period following the debt crisis, claims that the catalytic effect is important and has grown need to be treated carefully and examined further in the context of the impact of Fund lending on official flows.[9]

If a catalytic effect exists it is clearly not a blanket effect which covers all countries, all time periods, and all other sources of finance. It is more subtle than this and almost certainly varies across the variables listed above. Thus IMF lending may have little impact on commercial flows in Africa but may influence aid flows, whereas in key Latin American developing countries which are on the margin of creditworthiness the Fund's catalytic role could be important for commercial flows.[10] But for now there remains little econometric support for the catalytic effect.

A fourth conclusion from the econometric analysis of Fund lending is that there is much that we do not understand about the circumstances under which countries will and will not make use of Fund credit. The basic economic position will certainly be important, as may be the conditionality that countries perceive they will encounter, but the high residual in most econometric studies suggests that there are probably a range of other non-economic factors which still need to be delineated. Finally, the substantial evidence suggesting strong recidivism on the part

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[9] Changes in the nature and importance of the catalytic effect could result from the Fund's changing clientele. Killick, Malik and Marwel (1992) find that IMF programmes commenced in 1979–85 had the net effect of reducing capital inflows, claiming that 'a substantial part of the improvement in the current account was used to finance the repayment of foreign loans and was not rewarded by increases in disbursements'. Country case studies in Killick and Malik (1992) generally confirm the absence of a demonstrable catalytic effect.

[10] Bird and Helwege (1993) identify some resurgence in commercial lending to Latin America at the beginning of the 1990s while net credits with the IMF were still negative. This may, of course, imply that there is a lagged effect of Fund involvement on creditworthiness and therefore private lending but econometric studies generally find that a lag structure does not improve the significance of the correlation coefficient. The somewhat ambiguous relationship between IMF lending and commercial lending via the impact of Fund involvement on creditworthiness remains in some ways unsurprising. Interviews with bankers in both the US and UK during the mid-1980s showed that while the majority included IMF involvement in their credit assessment matrices, some included it with a positive sign, taking it as an indication that economic management and performance would improve, while others included it with a negative sign, taking it as an indication of severe economic difficulties.

of countries which do borrow from the Fund suggests that for some reason whatever policies the Fund is prescribing they are not allowing countries to graduate away from reliance on the Fund.[11]

The cost of Fund credit and degree of concessionality

It was noted in *Working Paper* No. 64, that some critics of Fund lending have painted a picture of countries contriving to create the balance of payments crises that will enable them to gain access to cheap Fund finance; they have argued that there is a moral hazard associated with IMF lending. At the same time none of the studies cited in the previous section have attempted to estimate the effect that variations in Fund charges have on Fund lending either through time, or even across countries.

However, it is an issue that warrants some further examination since it would be unwise to ignore the price variable in an evaluation of demand. Two things are clear from an examination of the data relating to Fund charges which is presented in Table 9. First, charges have risen over the entire period since 1950, but have increased quite rapidly during the 1980s. Second, and more significantly, the gap between the Fund's basic rate of charge and comparable private market rates has narrowed very markedly since the first half of the 1980s. During 1981–85 the basic rate of charge on the Fund's ordinary resources was 6.35 per cent as against the 6-month Eurodollar rate of 12.64 per cent. Clearly over this time period there was a price incentive to borrow from the Fund as opposed to private markets. During 1986–90, however, while the Fund's rate rose to 6.57 per cent, the Eurodollar rate fell to 7.98 per cent. By late 1990 the differential had been almost completely eliminated with the Fund rate standing at 8.3 per cent and the Eurodollar rate at 8.33 per cent. Although it is difficult to calculate exactly what impact the increase in the relative cost of Fund borrowing had on the Fund's lending activity, the movements in the two series are superficially consistent; Fund lending did fall as the interest rate on IMF loans increased. Certainly by the end of the decade it would only have been the existence of credit rationing in private markets or a positive desire by countries to be exposed to Fund conditionality that would have

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[11] Bird and Bedford (1992) suggest that borrowing from the Fund is subject to a threshold. While countries remain one side of the threshold they will strongly resist borrowing from the Fund and will pursue a range of policies to avoid it. But once they have been forced into the Fund and have passed through the threshold the resistance to future borrowing is considerably reduced. Either, the experience does not turn out to be as bad as they imagined it would be, or, alternatively once the political price of using the Fund has been paid, the costs of future use are significantly reduced. Bird and Bedford also argue that the different political and strategic importance of countries influences their borrowing from the Fund, and that the fact that most developing countries lack such importance explains why models of borrowing from the Fund tend towards over-predicting the number of Fund loans.

Table 9: International Monetary Fund charges, 1951–91
(per cent)

Financial years	*Average rates of charge*			
	On Ordinary Resources Basic Rates	*On Borrowed Resources*	*US Government 10-year Bond*	*Six-month Eurodollar*
1951–55	1.85	–	2.68	–
1956–60	1.96	–	3.58	–
1961–65	2.62	–	4.01	–
1966–70	2.92	–	5.53	6.94
1971–75	3.31	–	6.85	8.34
1976–80	4.64	7.43	8.45	8.89
1981–85	6.35	11.37	12.38	12.64
1986–90	6.57	8.09	8.60	7.98
1987–90	6.46	7.80	8.37	7.96
1990 (to October)	8.30	9.34	8.67	8.33

Source: IMF, Treasurer's Department

enticed them to borrow from the IMF as opposed to the private international financial markets. Of course credit rationing may be very relevant. For many developing countries creditworthiness remained low as therefore did their access to private credit at market rates, and, for this reason, high Fund rates may not have deterred borrowing. Even so the appropriateness of the Fund charging near-commercial rates to countries with low creditworthiness may be legitimately challenged.

For low income countries drawing under the structural adjustment facilities the Fund's rates have been maintained at a highly concessionary level–one half of 1 per cent at the end of the 1980s. Here again, of course, the price of loans is not the only issue. Low income countries frequently face an availability constraint as far as commercial loans are concerned. The fact that they would find it difficult to service loans at commercial rates makes commercial lenders unprepared to lend. An increase in rates would probably merely make potential lenders less prepared to lend to such countries since commercial loans would be perceived as increasing unmanageably the financial burden on them. Low income countries may therefore encounter an inelastic or backward-bending supply curve of commercial lending with respect to the rate of interest:

Given that the interest rate on the use of SAF and ESAF loans has been maintained at a low level since their introduction it would certainly seem to be inappropriate to try and explain trends in the use of these facilities over time in term of variation in the cost of drawings. For low income countries using the SAF and ESAF other arguments in the demand function are more relevant. Yet the data on arrears demonstrates that the cost of Fund lending under stand-bys and EFFs may be important. For low income countries drawing under stand-bys and EFFs, and for middle income countries, it may be unwise to reject the hypothesis that the reduction in the concessional element on Fund credit exerted some negative impact on the extent to which Fund lending was used, even though the effect is likely to have been secondary by comparison with the other factors influencing demand.

An interesting question that emerges from this discussion is why Fund charges are at the level that they are? The conventional answer is that rates have to be related to market rates, especially in the case of resources borrowed by the Fund, in order to induce creditor countries to make finance available to the Fund. However, this is an argument that may easily be overstated. If the demand for Fund loans is relatively inelastic with respect to the interest rate, is there any reason for believing that the supply is more elastic? Indeed given the average per capita income of the Fund's major net creditors as compared with its net debtors there might be a reasonable presumption that the demand elasticity would exceed the supply elasticity. It may reasonably be suggested that it is the strength of their balance of payments which influences their willingness to lend to the Fund rather than the rate of interest on offer. Moreover, those countries that in the main finance the Fund's operations do not regard the provision of financial support as an investment which must generate a competitive rate of return. The return is more appropriately seen in terms of the global role that the Fund performs in attempting to eliminate BoP disequilibria and to stabilise the world economy and in the private benefits which this indirectly confers on the Fund's creditors.

It is part of the revealed preference of creditor countries that they will provide concessional support for the Fund's lending; this is precisely what they do in the case of the subsidies attached to loans under the structural adjustment facilities.[12]

This view could change if the Fund grew significantly in size, and if the cost of running it rose dramatically. But at its existing scale of activities, it is difficult to see that the need to attract financial support is a convincing argument for increasing Fund charges to quasi-commercial levels. At the same time if it is felt to be sensible to increase the lending role of the Fund in order to offset the market failure deficiencies of private BoP financing that were discussed in *Working Paper* No. 64 then there could be an argument for lowering the cost of borrowing from the Fund in order to encourage potential users to translate potential use into actual use.

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[12] We may note that the share of ordinary and borrowed resources in financing Fund assistance has altered quite significantly during the period 1980–90. Borrowed resources accounted for 40 per cent of the total in 1980 rising to 44 per cent in 1985 and 1986. However the share of borrowed resources fell to only 33 per cent in 1989 even though there had been no increase in quotas since 1983. This provides another indicator of the spare lending capacity held by the Fund at this time, and to this extent market-related rates were not needed in order to attract the resources to the Fund.

Fund lending relative to need and other financial flows

We have seen in previous sections how IMF lending declined in the second half of the 1980s and we have offered some explanation of trends in lending. An additional perspective on Fund lending may, however, be provided by looking in more detail at the size of IMF lending in relation both to the size of BoP deficits that developing countries have been encountering and the size of other international financial flows. Reduced lending by the Fund would make more sense if the need for Fund support was declining because of improving balance of payments performance or because of increasing inflows from other sources.

Table 10 expresses purchases from the IMF as a percentage of current account deficits both for developing countries as a whole and for the various geographical sub-groups of developing countries. For developing countries in general purchases in the period 1980–91 rarely rose much above 10 per cent. The exception is clearly the period 1983–85 when the percentage rose to as much as 40.0 per cent. It is interesting to note that for 1988–91 the figure fell from 14.5 per cent to only 5.7 per cent. Although there are some indications noted earlier of enhanced Fund lending at the end of the 1980s and beginning of the 1990s, this figure suggests that for developing countries in general the Fund provided an insignificant amount of BoP financing.

Broken down by geographical sub-groups it may be seen that apart from 1980, 1982, 1985 and 1987 African economies generally received less BoP assistance from the IMF than did other developing countries. The largest IMF contribution to BoP financing has been made in the case of developing countries in the Western Hemisphere, although for these countries there has been dramatic yearly variation. In 1980, for example, less than 1 per cent of their current account deficit was financed by IMF lending whereas in 1983, 1984 and 1985 the percentages were 67.9 per cent, 432.4 per cent and 96.6 per cent respectively. Thereafter the

Table 10: Fund purchases as a percentage of current account balance of payments deficits

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Developing countries	–9.4	13.9	10.0	30.8	40.0	22.7	9.3	–24.3	14.5	11.8	10.4	5.7
Africa	30.5	7.1	11.0	14.5	15.3	84.1	6.2	7.1	4.2	8.2	5.9	5.4
Asia	8.5	15.0	13.6	25.0	37.4	7.5	–21.1	–2.6	–1.8	–28.0	3.2	13.7
Europe	4.8	12.8	40.8	–18.5	–12.8	–4.6	–3.0	0.0	–2.1	1.1	1.6	19.9
Middle East	0.0	–0.1	–1.6	0.7	0.8	0.8	0.0	0.8	0.0	0.7	0.0	0.1
Western Hemisphere	0.8	1.1	4.2	67.9	432.4	96.6	9.2	16.8	12.5	28.0	61.4	6.5

Source: IFS, *World Economic Outlook* (January 1986, May 1992) percentage fell to 9.2 per cent in 1986. By 1990 it was again over 60 per cent but fell to only 6.5 per cent in 1991.

It is also interesting to note that even though IMF lending to Eastern Europe has received much attention at the beginning of the 1990s, it covered only 20 per cent of the current account deficit in 1991.

These findings contrast with, but are not inconsistent with the conclusion drawn by Killick, Malik and Manuel (1992) that Fund credits are 'far from insignificant' in relation to the balance of payments. For in their study the sample is limited to developing countries which have negotiated an IMF-supported programme. For these countries over the period 1979–89 Fund credits were equivalent to about 30 per cent of the pre-existing current account deficit. Systemically the fact remains that only a much smaller proportion of the combined LDC current account deficit was financed by the IMF.

An examination of net resource flows to developing countries as shown in Table 2 of *Working Paper* No. 46 also confirms that IMF lending has in general also been insignificant by comparison with other forms of lending. As private flows diminished throughout the 1980s it was official development finance which increased to offset partially the decline; IMF lending did not fulfil this role and, indeed, IMF lending made a negative net contribution. The share of ODF in total net resource flows to developing countries which had been about 30 per cent at the beginning of the 1980s had increased to over 60 per cent by the end. For countries in the Western Hemisphere the increase was from 10 per cent to over 50 per cent and for the low income countries of Sub-Saharan Africa from just over 65 per cent to about 96 per cent.

The same basic conclusion emerges as from earlier sections. Whether in relation to the size of BoP problems encountered or in relation to the size of other lending, the IMF has only rather rarely made a significant quantitative contribution during the 1980s and early 1990s. Should the IMF's lending role not be bigger than it is? Can it hope to make a major contribution to the elimination of BoP disequilibria if it performs such a muted lending role? But perhaps we are getting a misleading picture by examining only the GRA and various special facilities such as the SAF and ESAF. Have developing countries made a heavy net use of their SDRs and is this a significant source of BoP financing for them?

The special drawing rights account: net use by developing countries

Resources may be drawn from the Fund not only under the GRA and various special facilities but also under the SDR Account. During its first ten years the SDR represented a significant source of finance for developing countries which were strong net users of SDRs, and there was an active policy debate that a more formal link should be established between the allocation of SDRs and the provision of aid.[13] However, changes in the operation of the SDR facility which raised the interest rate on net use to a market-related level largely eliminated the concessional element in the use of SDRs and this reduced their appeal to net users; although the fact that SDRs are essentially unconditional and have infinite maturity remained an attraction.[14]

Table 11 shows, that since the last allocation of SDRs in 1981 developing countries have made frequent but far from continuous net use of their SDRs. Indeed they have made net acquisitions of SDRs in almost as many years as they made net use. The table suggests no clear relationship between SDR net use and the net use of Fund credit under the other GRA and special facilities. But SDRs do not appear to act as a substitute for other Fund lending; indeed there is some evidence to support a complementary relationship. Faced with BoP difficulties countries appear to draw finance from wherever they can. With low creditworthiness and limited international reserves they may turn to the Fund and in these circumstances will tend to use both GRA and SDR resources. Developing countries were net users of SDRs in 1983 when they also drew heavily on the Fund through its GRA facilities, and they acquired SDRs in 1985 at a time when the net use of Fund credit was zero. However, in 1988 when the net use of Fund credit was quite strongly negative, many developing countries made heavy use of their SDRs, with African countries reducing their holdings of SDRs from SDR 300 millions to only SDR 89 millions and Western Hemisphere countries reducing their holdings from SDR 1,272 millions to SDR 569 millions. Of course with a given stock of SDRs and no new allocations developing countries cannot be continuous net users; they would simply run out of them. Instead SDRs have to be used as an inventory that may be depleted in one year and replenished in another. Moreover, countries may wish to avoid reducing their holdings below a minimum level, and this may explain why two years of relatively heavy usage in 1982 and 1983 following new allocations in 1981 were themselves followed by four years when developing countries as a whole built up their SDR holdings from SDR 2,897 million to SDR 3,736 million. It is interesting to note that operational guidelines were issued to Fund staff in 1988 emphasising that countries should build up their reserves in order to ensure that

[13] For a summary of the principal issues in the debate see Bird (1978). Other studies of the SDR which examine its potential as a means of channelling real resource flows to developing countries include Bird (1979, 1981, 1982). Williamson (1984) argues that there are both systemic and specific arguments for reactivating the SDR and in a recent paper (Williamson, 1992) again makes a case for using the SDR to assist developing countries. Renewed interest in the SDR is being shown in a world economic environment where some believe there is a shortage of international liquidity (Coats, 1990; Coats et al., 1990).

[14] Bird (1981), however, argues that even with a market-related rate on net use, SDRs could provide useful assistance to developing countries. In any case, and in principle, subsidies could be used in order to reduce the cost of net use to all developing countries or to a sub-set of them.

Table 11: Monetary authorities' holdings of SDRs: change on previous year (SDR million)

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
World	–671	4603	1334	–3327	2052	1743	1281	719	–40	312	–131	197
Industrial countries	–436	3051	2153	–2571	1853	1527	1233	341	1083	104	–48	–160
Developed countries	–177	1551	–820	–754	198	216	48	377	–1122	207	–82	357
Africa	–135	300	–217	–143	–77	16	56	37	–211	12	–17	155
Asia	–23	562	–150	–461	313	75	–38	–171	–60	–72	143	–135
Europe	–33	62	–44	41	–41	4	3	4	4	79	–60	145
Middle East	151	210	434	–144	126	10	–132	75	–151	219	–341	–38
Western Hemisphere	–138	418	–832	–48	–123	110	159	433	–703	–31	192	230

Source: *International Financial Statistics*

they would be able to meet their commitments to the Fund; 1988, recall, was a year of relatively heavy net use of SDRs by developing countries.

There is little doubt that, in principle, the SDR offers one mechanism through which greater financial assistance could be made available to developing countries. Low income countries in particular have low holdings of international reserves and have had some difficulties in repaying stand-by loans. Appropriate modifications to the SDR which would enable concessional allocations to be made to such countries could be of significant benefit to them without, in any way, endangering global macroeconomic stability. The only constraint to such reform is the reluctance on the part of the Fund's major shareholders to allow the SDR to be used as a conduit for unrequited and permanent real resource transfers; a reluctance reinforced by the preference for conditional aid. At the same time, however, financial flows through the SDR facility do have some advantages from a 'donor's' perspective by comparison with other forms of financial transfer.

Concluding remarks

Lending by the IMF has not made a significant contribution to financing BoP deficits in developing countries as a group during much of the 1980s and 1990s either in terms of the size of the financing needs that these countries have faced or in terms of other financial flows. At a time when countries had severe payments difficulties, often associated with attempts to escape from the problem of external debt, the IMF took more money back from them than it made available in the form of new loans. This raises important issues in terms of the systemic role of the IMF as an international financial institution.

However, the Fund cannot volunteer loans and has to respond to requests for assistance from members. Evidence supports the view that the demand for Fund assistance was not strong during the second half of the 1980s, although care is needed in distinguishing between the value and number of loans. Even so, the IMF is not entirely passive; it can influence the demand for its loans through the 'price' it attaches to them in terms of both the conditionality that is used and, probably to a rather lesser extent, through the interest rate it charges.

The empirical evidence provides little support for critics of IMF lending who have based their case on moral hazard arguments. Meanwhile the idea of a catalytic effect receives at best patchy support. A catalytic effect may exist in some cases but this is often weak, and for many developing countries commercial lending does not represent a viable option either with or without Fund lending. Moreover, the evidence firmly challenges the view that Fund lending is temporary. There is strong evidence spanning many years and various sub-groupings of developing countries that Fund involvement is often prolonged if not almost quasi-permanent. In a way this finding enhances the lending role of the Fund, but it also raises serious questions concerning the Fund as an adjustment institution. If adjustment is effective countries should not need Fund support for such long periods of time.

Whilst its loans to large Latin American and Eastern European countries often receive the greatest attention, most IMF loans are in fact to low income countries. Generally speaking these countries face the most severe economic difficulties and encounter the greatest problems in using loans from the Fund, as is reflected by the mounting problem of arrears.

Rather than allowing it to be awkwardly and reluctantly sucked into lending, it is time to reconsider fundamentally the Fund's lending role. This reassessment should cover a number of issues. First, the rationale of Fund lending needs to be firmly established even though this may vary between countries, and the Fund needs to be able to lend at levels which reflect that rationale. To the extent that there is a globally optimal value of Fund lending, the Fund needs to assess what policies will generate this level. Such an assessment will cover conditionality and cost. Second, it needs to sort out its relationships with other official and private creditors; is the relationship one of complementarity or substitutability? Given that it is, in fact, again likely to vary across countries, the Fund, thirdly, needs to identify its major clients, more precisely define their financing needs, and rethink the range of facilities, including GRA, special, and SDR facilities, through which financial provision is made. This almost certainly calls for a major rationalisation of the Fund's lending facilities. Finally the Fund needs to take a well-informed view concerning the appropriate blend of adjustment and financing both at the global and country-specific levels. Under what circumstances might it be appropriate to emphasise financing and longer-term adjustment as opposed to less financing and swifter adjustment? Resolution of these issues will enable the Fund to present a more coherent and purposeful lending strategy than the one reflected in the evidence examined here.

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