



## International Monetary Fund Framework<sup>1</sup>

1. The Fund provides support to member countries through policy advice, technical assistance and financial assistance<sup>1</sup>. Advice and assistance are tailored to each country's specific circumstances and needs, including special factors related to size.
2. *Surveillance*. A main channel for the Fund's policy advice is its surveillance over all members' economies, including those of small states. For slightly more than half of its small member states, the Fund maintains a close dialogue through annual consultations. Other small member states, including most of those in the Asia and Pacific region, are on a 24-month cycle (18-month in one case). For these countries, the Fund nevertheless maintains continuity in its surveillance activities through, inter alia, interim staff visits. Countries that are on a longer cycle can request to return to the annual cycle, or to have a staff visit, or the staff can recommend this to the authorities if economic developments suggest it would be useful. Small states have also availed themselves of staff monitored programs with the Fund, another channel by which the Fund maintains a close policy dialogue with member countries. During the period January 1995 – February 2000, six of the small member states had such a program, which can play an important role as a catalyst for aid and private capital inflows.
3. These various forms of bilateral discussions are supplemented by discussions with the regional authorities of those small member states which participate in a monetary union (namely, Eastern Caribbean Currency Union, West African Economic and Monetary Union, and Central African Economic and Monetary Community).
4. One of the changes in the global economy faced by all developing countries, large and small, is the decline in global aid flows. Many donors are also increasingly concentrating their scarce aid resources in countries that adopt sound policies. In these circumstances, it is doubly important that recipient countries adopt appropriate economic policies that serve their own needs. The economic policy advice provided by the Fund to small states plays a major role in helping these countries adopt policies that will attract foreign assistance. As the Fund continues to increase its emphasis on regional aspects of surveillance, it will be in a better position to offer small states policy advice that focuses on their transition to the new global economy.
5. In order to assist members to adjust to the changing global environment and improve the functioning of the international monetary system, the Fund, together with other

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<sup>1</sup> This text is extracted from *Small States: Meeting Challenges in the Global Economy*, Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States, Washington DC and London, April 2000.

institutions, is promoting greater transparency in both economic policy and in economic and financial data. Transparency is particularly important for small states: while in its absence, investors may find it cost effective to research and penetrate large markets, they are less likely to make the same effort for small opaque markets. Transparency and prudent macroeconomic management help reduce the overreactions and unnecessary shocks to which small states are particularly vulnerable. The Fund can bring its international experience to bear in providing small countries with advice that will help them to make adjustments before they are forced to do so by the markets. The Fund also promotes the orderly liberalisation of current and capital transactions, of which small states are potentially some of the greatest beneficiaries.

6. *Financial assistance.* Like all member countries, small states which face balance of payments difficulties are eligible for all of the Fund's financial facilities and loans (see the Box below on the various IMF loan facilities). Over the past twenty years, small states have in fact used a wide range of Fund assistance (see the Table below). For all Fund lending, the size of the loan is based on the country's economic size as measured by its quota in the Fund. All programs take into account country-specific circumstances, including size of the economy. An important principle in Fund lending is uniformity of treatment across all members. Two types of financial assistance that may be particularly helpful to small states that are vulnerable to natural disasters or have higher degree of export concentration, are emergency assistance for natural disasters and the Compensatory Financing Facility which, *inter alia*, provides financial assistance to countries that have balance of payments problems because of a shortfall in their export receipts. Small states that have low per capita income are eligible for the Fund's concessional loan facility, the Poverty Reduction and Growth Facility (PRGF). Eligibility for the use of PRGF resources has tended to follow closely the World Bank's decisions on IDA eligibility. Of the 19 small states eligible for PRGF (or its predecessor, ESAF) financing, eight have used these concessional resources to date (some more than once); two are currently in an PRGF arrangement with the Fund.
7. *Technical assistance.* The Fund provides a wide array of technical assistance (TA) to member countries through its Fiscal Affairs, Monetary and Exchange Affairs, Statistics, and Legal departments, and its IMF Institute offers training courses and seminars to member government officials both in Washington and outside. The area departments, as well as the Research and the Policy Development and Review departments, also provide technical assistance on occasion. It should be noted that in the early 1990s procedures were put into place to ensure that the sudden increase in TA provision to the transition economies would not crowd out other regions and countries, and these remain in effect.
8. Small states have made extensive use of the Fund's TA services, including through regional entities such as the Eastern Caribbean Central Bank. The provision of technical assistance to the small states of the South Pacific (by the Fund and UNDP) has benefited from the establishment of a regional centre in Fiji in 1993 (PFTAC), whose activities are co-ordinated by the Fund and now financially supported by the AsDB, Australia and New Zealand. More recently, the Fund has been consulting with the governments of the region, UNDP and other interested regional and donor

agencies regarding a similar initiative for the Caribbean. The IMF will also be organizing high-level policy seminars and a program of applied research into common structural problems in the Caribbean (e.g., the phase-out of Lomé preferences for banana exports).

## **Summary of IMF lending facilities and access policies**

The IMF offers financial assistance to members to help them correct balance of payments problems and to cushion the impact of reform. The IMF's financing is provided through both its general resources and its concessional financing facility, which is administered separately. The extension of IMF credit is subject to Executive Board approval and, in most cases, to the member's commitment to take steps to address the causes of its payments imbalance.

### *Stand-By Arrangements and Extended Arrangements*

The typical stand-by arrangement (SBA) is designed to provide medium-term financial assistance to help countries deal with balance of payments deficits of a temporary or cyclical nature. Under an SBA, a country in consultation with the IMF staff designs and implements a program (which usually lasts for 12-18 months but can be up to three years) that includes macroeconomic policy changes to resolve its external payments problems. To receive financing, the member must comply with this program, including meeting the performance criteria that mark its successful implementation. These criteria, which allow both the member and the IMF to assess progress and may signal the need for further corrective policies, generally cover ceilings on government budget deficits, domestic credit, and external debt, as well as targets for international reserves. Access is normally subject to an annual limit of 100 percent of quota and a cumulative limit of 300 percent of quota. The repayment period is 3¼–5 years.

The IMF provides financial support to its members for longer periods under the Extended Fund Facility. Extended arrangements, which normally run for three years but can be extended for a fourth, are designed to correct external imbalances that stem largely from structural problems and take longer to correct. Access is normally subject to an annual limit of 100 percent of quota and a cumulative limit of 300 percent of quota. The repayment period is 4½ to 10 years.

### *Compensatory Financing Facility*

The purpose of the Compensatory Financing Facility (CFF)—formerly part of the Compensatory and Contingency Financing Facility (CCFF)—is to ensure timely financial assistance to members that are experiencing balance of payments difficulties resulting from a temporary decline in export earnings or rise in cereal import costs, attributable to factors largely beyond their control. If the member has balance of payments difficulties beyond the effects of the shortfall/excess, the member is expected to cooperate with the Fund in an effort to address its balance of payments difficulties. Under the export element, compensation can be given also for a shortfall in receipts from services (excluding investment income), if reliable statistics are available.

Access limits under the CFF for export shortfalls and cereal import excesses are separate from those under the credit tranches and the EFF and are determined by a member's balance of payments position, past cooperation with the Fund to resolve its balance of payments difficulties, and willingness to adopt adjustment policies. Depending on these considerations, access limits can range from 10 percent to 55 percent of quota. The repayment period is 3¼-5 years.

#### *Emergency Assistance Related to Natural Disasters*

The IMF can also provide emergency financial assistance to a member facing balance of payments difficulties caused by a natural disaster and has provided such assistance on a number of occasions. The assistance is available through outright purchases, provided that the member is co-operating with the IMF to find a solution to its payments problems. Access is usually limited to 25 percent of quota but in some cases has been as high as 50 percent of quota. The repayment period is 3¼—5 years.

#### *Poverty Reduction and Growth Facility*

Resources under the Poverty Reduction and Growth Facility (PRGF) are made available to low income countries in the form of highly concessional loans to support medium-term macroeconomic and structural adjustment programs. Such programs are explicitly oriented toward a lasting improvement in the external payments position, stronger economic growth, and a reduction in poverty. The PRGF is the successor to the Enhanced Structural Adjustment Facility (ESAF), the primary differences being the addition of poverty reduction as a goal of the PRGF and the requirement that PRGF-supported programs be derived from country-led, participatory poverty reduction strategies. It is intended that PRGF arrangements should play a catalytic role in mobilizing and coordinating resource flows from other multilateral and bilateral sources of finance. Eligibility for PRGF arrangements has been based principally on per capita income and eligibility under the International Development Association (IDA), the concessional lending organization of the World Bank.

PRGF arrangements cover a period of three years. The interest charged on PRGF loans is 0.5 percent. Access under PRGF arrangements is determined according to members' balance of payments needs, the strength of their adjustment programs, their outstanding use of IMF credit, and their record of such use in the past. The maximum access under a three-year arrangement is 140 percent of the member's quota, or, under exceptional circumstances, up to 185 percent of quota. The repayment period is 5½–10 years.

**IMF lending to small states, June 1979—February 2000**

Country	Loan	(in millions of SDRs)		Amount Approved 2/	Amount Drawn
		Approval Date	Expiration Date 1/		
Barbados	SBA	10/1/82	5/31/84	31.9	31.9
	CCFF	10/6/82		12.6	12.6
	SBA	2/7/92	5/31/93	23.9	14.7
	CCFF	2/12/92		22.2	22.2
Belize	CCFF	Jun-93		3.6	3.6
	SBA	12/3/84	6/1/86	7.1	7.1
Cape Verde	SBA	2/20/98	4/19/99	2.5	0.0
Comoros	SAF	6/1/91	6/1/94	3.2	2.3
Cyprus	SBA	7/16/80	7/15/81	8.5	8.5
Djibouti	SBA	4/15/96	3/31/99	8.3	8.3
	PRGF	10/18/99	10/17/02	19.1	2.7
Dominica	EA	12/27/79		1.0	1.0
	CCFF	12/27/79		1.0	1.0
	EFF	2/6/81	2/5/84	8.6	8.6
	CCFF	2/11/81		2.0	2.0
	SBA	7/18/84	7/17/85	1.4	1.0
	SAF	Nov-86	Nov-89	2.8	2.8
Equatorial Guinea	SBA	7/1/80	6/30/81	5.5	5.5
	CCFF	7/3/80		6.4	6.4
	CCFF	4/13/81		4.7	4.7
	SBA	6/28/85	6/27/86	9.2	5.4
	SAF	Dec-88	Dec-91	12.9	9.2
	ESAF	2/3/93	2/2/96	12.9	4.6
Fiji	CCFF	2/8/82		13.5	13.5
	CCFF	1/30/85		4.8	4.8
Gabon	EFF	6/27/80	12/31/82	34.0	0.0
	SBA	12/22/86	12/31/88	98.7	73.1
	SBA	9/15/89	3/14/91	43.0	10.5
	SBA	9/30/91	3/29/93	28.0	4.0
	SBA	3/30/94	3/29/95	38.6	38.6
	CCFF	4/5/94		21.5	21.5
	EFF	11/8/95	3/7/99	110.3	110.3
Gambia	SBA	11/2/79	11/1/80	1.6	1.6
	CCFF	6/8/81		9.0	9.0
	SBA	2/22/82	2/21/83	16.9	16.9
	SBA	4/23/84	4/22/85	12.8	2.6
	SBA	9/17/86	10/16/87	5.1	5.1
	CCFF	9/25/86		4.7	4.7

**IMF Lending to Small States June 1979—February 2000 (cont.)**

Country	Loan	(in millions of SDRs)			
		Approval Date	Expiration Date 1/	Amount Approved 2/	Amount Drawn
	SAF	12/1/86	12/1/89	10.9	8.6
	ESAF	11/23/88	11/5/91	20.5	20.5
	PRGF	6/29/98	6/28/01	20.6	6.9
Grenada	SBA	11/6/79	12/31/80	0.7	0.7
	CCFF	4/1/81		2.1	2.1
	SBA	5/11/81	5/10/82	3.4	2.9
	EFF	8/24/83	1/24/84	13.5	1.1
Guinea-Bissau	SAF	Oct-87	Oct-90	5.3	3.8
	ESAF	1/18/95	7/24/98	10.5	10.5
Guyana	SBA	8/15/78	6/24/79	6.3	6.3
	EFF	6/25/79	6/24/80	62.8	10.0
	CCFF	1/17/80		6.3	6.3
	EFF	7/25/80	7/21/82	150.0	51.7
	CCFF	11/10/82		5.9	5.9
	SBA	7/13/90	12/31/91	49.5	49.5
	ESAF	7/13/90	12/20/93	81.5	81.5
	ESAF	7/20/94	4/17/98	53.8	53.8
	PRGF	7/15/98	7/14/01	53.8	17.9
Mauritius	SBA	10/31/79	9/4/80	73.0	40.0
	SBA	9/5/80	9/4/81	35.0	35.0
	CCFF	4/15/81		40.5	40.5
	SBA	12/21/81	12/20/82	30.0	30.0
	SBA	5/18/83	8/17/84	49.5	49.5
	SBA	3/1/85	8/31/86	49.0	49.0
	CCFF	3/6/85		7.5	7.5
St. Kitts-Nevis	EA	Dec-98		1.6	1.6
St. Lucia	EA	Nov-80		1.8	1.8
	CCFF	4/1/81		2.7	2.7
St. Vincent and the Grenadines	EA	Nov-80		0.4	0.4
	CCFF	3/25/81		1.3	1.3
Samoa	SBA	8/17/79	8/16/80	0.8	0.0
	SBA	6/27/83	6/6/84	3.4	3.4
	CCFF	6/27/83		1.2	1.2
	SBA	7/9/84	7/8/85	3.4	3.4
	CCFF	4/1/91		2.0	2.0
	EA	4/1/91		0.8	0.8
Sao Tome and Principe	SAF	June-89	June-92	2.8	0.8
Solomon Islands	SBA	5/29/81	5/28/82	1.6	0.8
	CCFF	10/28/82		1.6	1.6
	SBA	6/22/83	6/21/84	2.4	1.0

**IMF Lending to Small States June 1979—February 2000 (cont.)**

Country	Loan	(in millions of SDRs)		Amount Approved 2/	Amount Drawn
		Approval Date	Expiration Date 1/		
	EA	Sep-86		1.3	1.3
Swaziland	BSFF	Jan-83		0.9	0.9
	CCFF	6/27/83		9.0	9.0
Trinidad & Tobago	CCFF	11/23/88		85.1	85.1
	SBA	1/13/89	2/28/90	99.0	99.0
	SBA	4/20/90	3/31/91	85.0	85.0

Source: International Monetary Fund, Treasurer's Department.

**Notes:**

BSFF: Buffer Stock Financing Facility

CCFF: Compensatory and Contingency Financing Facility

EA: Emergency Assistance

EFF: Extended Fund Facility

ESAF: Enhanced Structural Adjustment Facility

PRGF: Poverty Reduction and Growth Facility

SAF: Structural Adjustment Facility

SBA: Stand-By Arrangement

1/ In some cases there was an extension of the original expiration date.

2/ Including subsequent augmentations