IMF Credit for LDCs - A Critical Analysis

IMF loans are meant to help member countries tackle **balance of payments problems, stabilize their economies,** and restore sustainable economic growth. It must be noted that the **IMF is not a development bank and, unlike the World Bank** and other development agencies, **it does not finance projects.**

During the last ten years, because of the severe problems faced by many countries because of the Global Financial Crisis, a key objective of the lending policy reforms has been to complement the traditional crisis management role of the IMF with more effective tools for crisis prevention.

The IMF has a special provision for helping less developed countries. It is done through Poverty Reduction and Growth Trust (PGRT) which has three concessional lending facilities:

Extended Credit Facility (ECF) : Sustained medium- to long-term engagement in case of long-term balance of payments problems.

Standby Credit Facility (SCF): Financing for LDCs with actual or potential short-term balance of payments problems caused by domestic or external shocks and can also be used on a precautionary basis during times of increased risk and uncertainty.

Rapid Credit Facility (RCF): Rapid financial support as a single up-front payout for low-income countries facing urgent balance of payments needs with **limited conditionalities.** There is a provision of possible repeated disbursements over a (limited) period in case of recurring or ongoing balance of payments needs.

All these lending facilities (ECF, RCF, SCF) are concessional. These facilities have different maturities and grace periods and are currently interest free. In 2015, the interest rate on RCF financing was set permanently at zero to further enhance support for PRGT-eligible countries in vulnerable situations and those hit by natural disasters. Financing under the ECF and SCF carries a zero interest rate at least through June 2021, with a grace period of 5½ years and 4 years, respectively, and a final maturity of 10 years and 8 years, respectively.

Apart from the above, the traditional Standby Credit Facility (SCF) provides financial assistance to low-income countries (LICs) with short-term balance of payments needs. It provides support under a wide range of circumstances, allows for high

access, carries a low interest rate, and can be used on a precautionary basis. However, SCF places emphasis on countries' poverty reduction and growth policies.

Finally, In addition to concessional loans, some low-income countries are also eligible for debts to be written off under two key initiatives.

The **Heavily Indebted Poor Countries (HIPC)** Initiative, introduced in 1996 and enhanced in 1999, whereby creditors provide debt relief, in a coordinated manner, with a view to restoring debt sustainability; and

The **Multilateral Debt Relief Initiative (MDRI),** under which the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF) canceled 100 percent of their debt claims on certain countries to help them advance towards Millennium Development Goals.

Critical Evaluation

There is no doubt that IMF has helped many countries to overcome their BOP problems in the short run (and in some cases, even in the long run), but the conditionalities imposed by it have often been criticized as 'anti-developmental'. the IMF philosophy is based on the market-based development strategy. It puts emphasis on deregulation, trade liberalisation, less government intervention, free flow of private capital across countries etc.

Josef Stiglitz, former Chief economist of the World Bank, has criticized the IMF for giving priority to the needs of global finance rather than global stability. He contended that irrespective of the merit of some of the liberalisation policies, they were mostly premature in nature. Many of the LDCs were not strong enough to cope with the shocks of volatile capital inflows and outflows.

Another controversial issue is the QUOTA system which ensures that the richer nations have more votes than the poorer ones. So, their decisions and interest in respect of lending rules predominate, rather than the recipients of the loans.

The critics also point out that the burden of adjustment should be more equitably shared between the surplus and the deficit countries. IMF, on the other hand, puts the entire burden of adjustment on the borrowing countries.