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**EVALUATION OF THE PROLONGED  
USE OF IMF RESOURCES**

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# **EVALUATION OF THE PROLONGED USE OF IMF RESOURCES**

## **OUTLINE OF THE PRESENTATION**

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- **Project goals**
- **Methodology**
- **Definition of prolonged use**
- **Profile of prolonged use**
- **Case studies**
- **Causes of prolonged use**
- **Is prolonged use a problem ?**
- **Main recommendations**

# Project Goals

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- What is prolonged use and how widespread is it?
- What causes prolonged use?
- Is prolonged use a problem?
- What should be done about it?

# Methodology

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- Cross-country analysis of prolonged users
- Case studies: in depth review of Pakistan, Philippines and Senegal; narrower desk reviews of two “graduators” Jamaica and Morocco
- Interviews and questionnaires with IMF staff, donors, country authorities and other stakeholders.

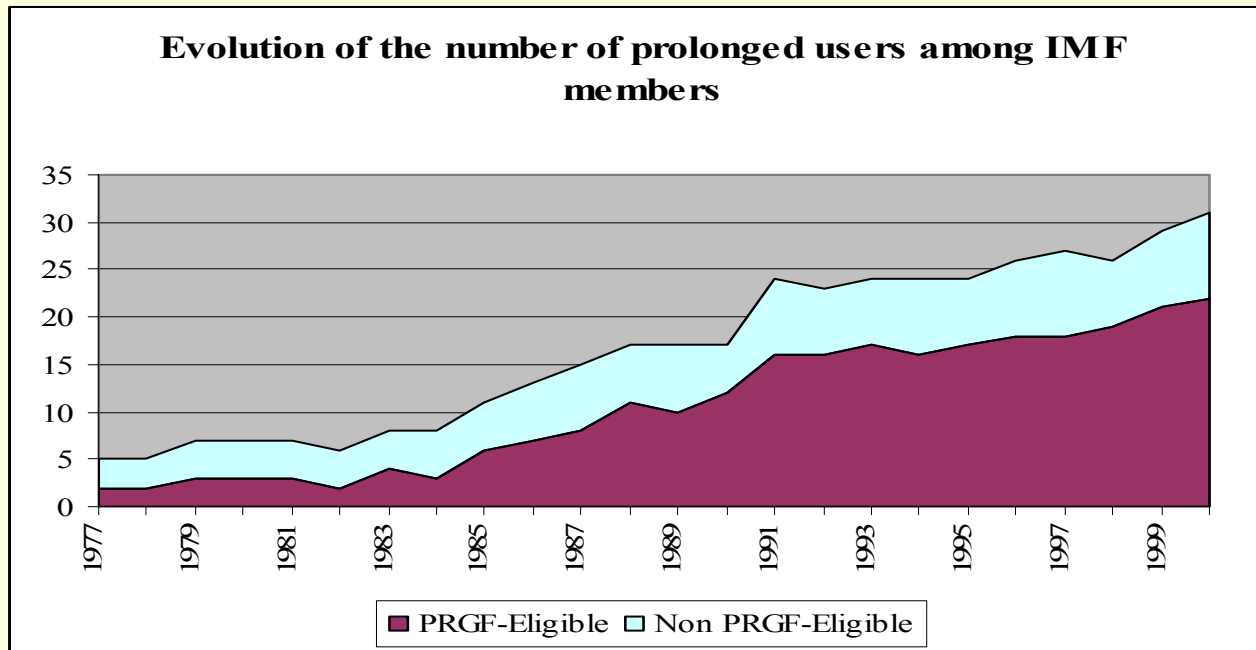
# Definition of Prolonged Use

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- No single “official” definition
- Definition retained in this project : 7 years under IMF arrangement out of any 10
- Conclusions on the scope of PU are not very sensitive to the definition

# Profile of Prolonged Use

- PU predominantly affects low-income countries, but not exclusively
- PU has expanded over last two decades



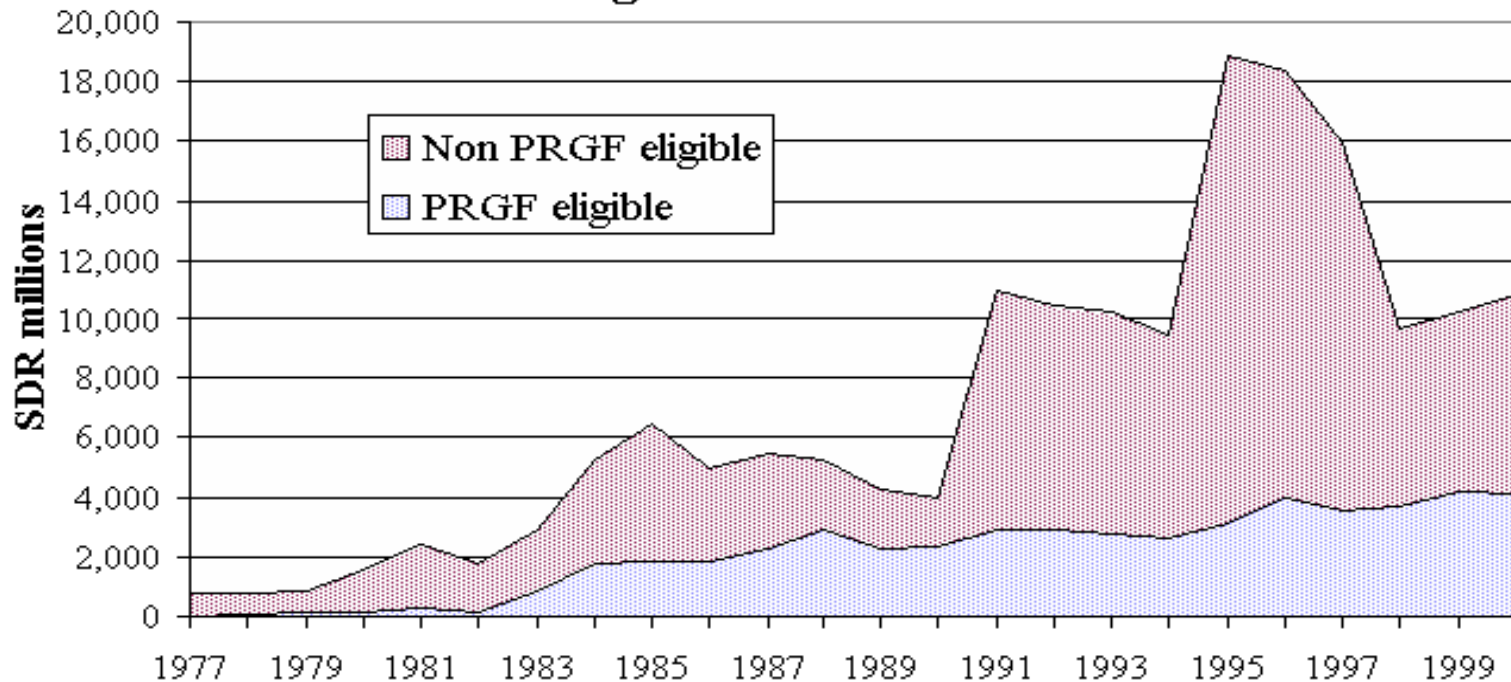
# Profile of Prolonged Use (contd)

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- PU is persistent: relatively few “graduator”
- Some countries have had IMF resources outstanding for decades; average for prolonged users is 21 years

# Profile of Prolonged Use (contd)

Evolution of prolonged users' outstanding obligations to the IMF





# Most Prolonged Users since 1971

Country	Years under program	Number of arrangements	Years with outstanding obligations > 100 % of quota
Philippines	25	16	24
Panama	21	17	13
Pakistan	20	15	13
Haiti	20	15	5
Senegal	20	13	13
Memo item: Argentina	16	10	19

# Case studies profile

## Pakistan

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- Chronic use of IMF resources since early 1970s; continuous use since 1988
- Access to both general and concessional resources
- Good progress in liberalizing the economy and improving the tax structure
- But lack of improvement of macro current imbalances and large deterioration of public and external debt profile

# Case studies profile (2)

## Philippines

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- IMF resources outstanding continuously since 1967. Exclusive use of GRA resources
- Substantial progress in reducing macro vulnerabilities and macro stabilization, mostly over 1982/1997
- Little progress on key institutional reforms (e.g. tax administration)
- “Graduation” from IMF support at end 2000, with lingering weaknesses (esp. fiscal).

# Case studies profile (3)

## Senegal

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- Almost continuous IMF-supported programs since 1979, mostly under concessional facilities since 1986
- Stop-go implementation of program undertakings. Improved and steady growth performance since 1994 (CFA franc devaluation)
- Significant progress in prices and trade liberalization, tax policy, and reduction in weight of public sector
- Large unfinished agenda of structural reforms in key sectors (groundnut, energy)

# Causes of Prolonged Use

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- IMF policies and expanded expectations of the international community
- Country-specific characteristics
- Systemic and internal IMF governance factors
- Problems with program design and implementation

# Causes of Prolonged Use

IMF policies and expanded expectations of international community

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- Evolution of IMF facilities reflects a gradual recognition that deep-seated structural problems cannot be solved over the short-term
- Growing distinction between approaches to low-income countries and other member countries

# Causes of Prolonged Use

IMF policies and expanded expectations of international community (2)

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- But lack of fundamental changes in the timeframe and design of programs
- Attempts to solve long-term problems with short-term timeframe of programs has limited their effectiveness

# Causes of Prolonged Use

## Country characteristics

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Prolonged users suffer from deeper problems than “temporary” users:

- Larger initial imbalances ( $S_n$ ;  $P_h$ )
- More volatile, less dynamic exports ( $P_k, S_n$ )
- Lower tax revenues and more rigid expenditures ( $P_k, P_h, S_n$ )
- Higher political instability ( $P_k, P_h$ )



# Causes of Prolonged Use

## Systemic and Internal IMF Governance factors

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- Seal of approval function: IMF arrangements as “gatekeeper” for other financing (Sn; Ph)
- Programs “crowd out” surveillance (Pk,Ph,Sn)
- Lack of explicit or adequate “exit” strategies in many cases (Ph; Sn)

# Causes of Prolonged Use

## Systemic and Internal IMF Governance factors (2)

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- Lack of opportunities for candid stock-taking and ex post assessments (Pk, Ph, Sn)
- Institutional culture (e.g. incentives to overpromise in programs)
- Political pressures (Pk, Ph at times)

# Causes of Prolonged Use

Problems with program design and implementation

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- Many of these issues are not specific to prolonged use cases
- Adjustment record in many prolonged use cases is mixed at best (although hard to disentangle conditionality)

# Causes of Prolonged Use

## Problems with program design and implementation (2)

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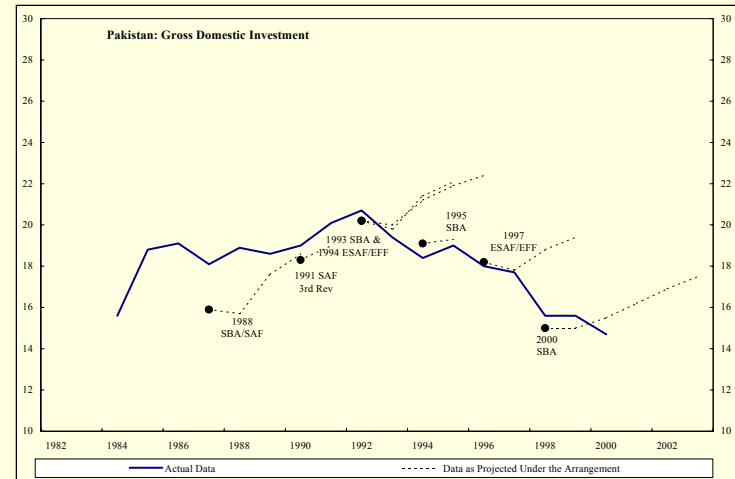
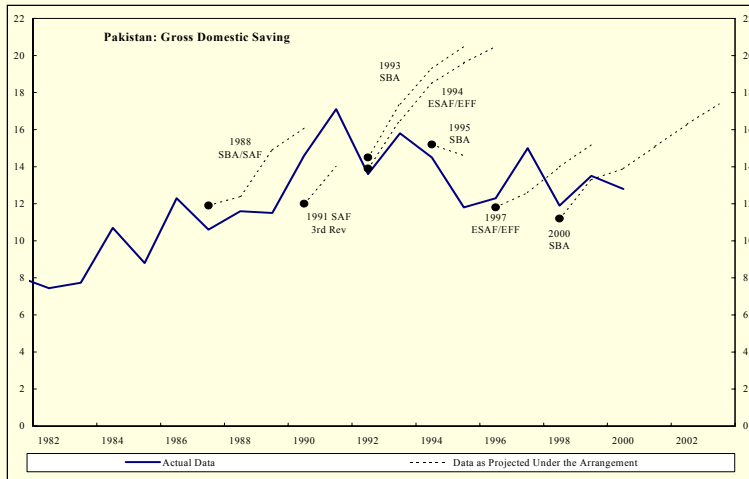
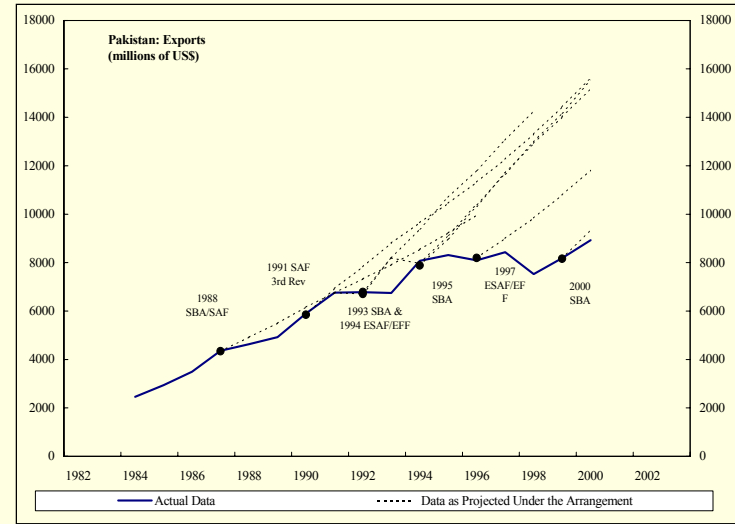
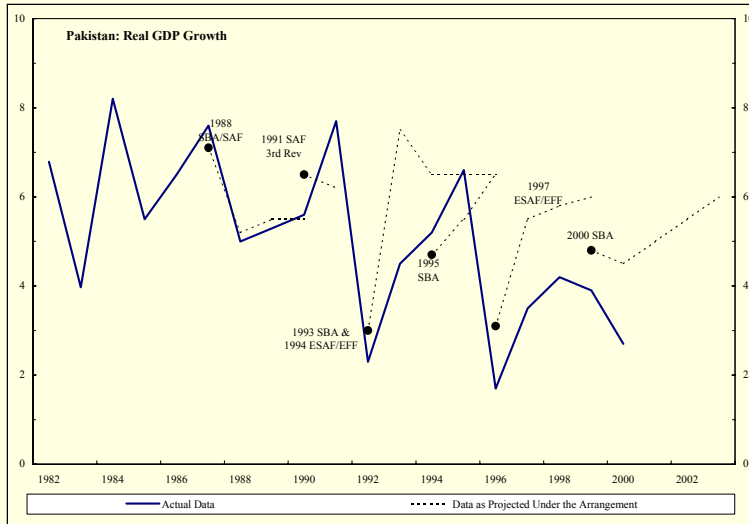
- Insufficiently prioritized and sometimes poorly designed conditionality (Ph, Pk)
- Optimistic bias in projections of GDP and exports (see table and chart) (Pk, Ph, Sn)

## **Table 2. Realism of Program Projections: Average Projections less Outturns**

(Percentage points per year)

	<b>Pakistan</b>	<b>Philippines</b>	<b>Senegal</b>	<b>Morocco</b>
<b>Real GDP growth</b>	<b>1.4</b>	<b>2.1</b>	<b>1.7</b>	<b>1.2</b>
<b>Export growth (in U.S. dollar terms)</b>	<b>5.7</b>	<b>2.5</b>	<b>2.8</b>	<b>0.9</b>
<b>Fiscal balance (in percent of GDP)</b>	<b>1.9</b>	<b>1.6</b>	<b>1.9</b>	<b>1.8</b>
<b>Government revenue (in percent of GDP)</b>	<b>1.3</b>	<b>1.1</b>	<b>--</b>	<b>--</b>
<b>National saving (in percent of GDP)</b>	<b>2.3</b>	<b>0.5</b>	<b>2.8</b>	<b>-0.8</b>

# Growth of GDP, Exports, Gross Domestic Savings, and Gross Domestic Investment



# Causes of Prolonged Use

## Problems with program design and implementation (3)

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- Underestimation of importance of ownership and capacity constraints (Ph, Pk, Sn)
- Frequent implementation problems; little systematic assessment of political feasibility (Pk, Sn)
- Difficulties in dealing with uncertainty: programs do not adapt well to shocks (Ph; Sn)

# Is Prolonged Use a Problem ?

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- **For the IMF ?**
- **For prolonged users ?**



# Is Prolonged Use a Problem ? For the IMF ?

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- Surveillance function can be durably undermined (Pk)
- Adverse impact on credibility (devalued “seal of approval” ; weakened catalytic effect) (Ph)
- Blurred mandate (Sn)
- IMF resources revolve much more slowly than expected in PU cases (Ph)

# Is Prolonged Use a Problem ? For Prolonged Users ?

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- Positive impact on build-up of economic management skills (with room for improvement) (Ph, Sn)
- Adverse impact on the development of robust and open domestic policy formulation processes (Ph,Pk,Sn)

# Is Prolonged Use a Problem ?

## For Prolonged Users (2)

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- Possible “moral hazard” effects (incentive not to undertake reforms/adjustment) (Ph,Pk)
- Long-term dynamics may be overlooked and vulnerabilities may grow unchecked (Pk, Sn)

# Main Recommendations

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- **On the rationale for use of IMF resources**
- **On program design**
- **On internal governance**

## **Two common purposes:**

- **reduce scope of prolonged use**
- **mitigate its drawbacks**

# Main Recommendations

## on the rationale for use of IMF resources

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- Adopt an explicit operational definition of PU to trigger increased “due diligence” procedures;
- Including explicit “exit strategies” from IMF support for PUs, (esp. in low-income countries)
- Provide donor community with satisfactory alternatives to IMF arrangements as “seals of approval”

# Main Recommendations

## on the rationale for use of IMF resources (2)

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- Greater effort at judging when countries are ready to implement programs
- Greater selectivity in extending financial support, based on candid assessment of risks

# Main Recommendations on Program Design

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- Seek greater ownership and integration with domestic policy formulation process
- Give more emphasis to institutional reforms and implementation capacity
- Systematize assessments of implementation capacity constraints and adjust program design accordingly

# Main Recommendations on Program Design (2)

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- Seek greater selectivity in program contents, based on well thought-out prioritization of issues
- Discuss explicitly major uncertainties and possible adaptations to program design if outlook changes



# **Main Recommendations on internal IMF governance**

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- Undertake systematic ex post assessments of programs
- Strengthen surveillance further, as an opportunity to reassess overall strategy and with greater efforts to seek second opinions

# **Main Recommendations on internal IMF governance (2)**

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- Strengthen IMF staff's ability to understand political economy context
- Separate technical assessments from political considerations in the decision-making process