EG/02/1

January 29, 2002

To: Members of the Evaluation Group

From: The Group's Secretary

Subject: **Draft Issues Paper for IEO Evaluation Project on Prolonged Use of Fund Resources**

On behalf of Mr. Cippa, Chairman of the Evaluation Group, there is attached for the information of the group and other Executive Directors a memorandum from the Acting Director of the Independent Evaluation Office and a copy of a draft issues paper that the Independent Evaluation Office (IEO) is circulating to the heads of Fund departments for comments. Executive Directors are also invited to send their comments directly to Mr. Ahluwalia at the IEO. The IEO plans to place a revised version of the issues paper on its website by the end of the first week of February for outside comment, but comments received from Executive Directors after that date can still be taken into account by the IEO before the issues paper is finalized in early March.

Att: (2)

Other Distribution:
Members of the Executive Board

Office Memorandum

To: Mr. Cippa   January 25, 2002

From: David Goldsbrough, Acting Director
        IEO

Subject: **Initial Draft of an Issues Paper on the Evaluation of the Prolonged Use of Fund Resources**

I attach, for the information of the Evaluation Group and all other Executive Directors, an initial draft of an "issues paper" on the evaluation of prolonged use of Fund resources. Any Executive Director who has comments on the draft is invited to submit them to the IEO. The draft has also been circulated to department heads for comments.

IEO plans to post a revised draft of the issues paper, after taking account of comments received, on its external website by the end of the first week of February. We are still experimenting with the most appropriate format for these issues papers and any comments Directors may have on the format will also be welcome.

Attachment

cc: Mr. Mountford

PROLONGED USE OF FUND RESOURCES
DRAFT ISSUES PAPER/TERMS OF REFERENCE

This note sets out the main issues to be addressed in the evaluation of prolonged use of IMF resources. Section A provides some background on the issue: why prolonged use might be a problem, including the main criticisms by various external observers; a discussion of the extent of prolonged use; and a summary of the available empirical evidence on several of the issues related to prolonged use. Section B then lays out the proposed "terms of reference" for the project—namely, the broad sets of questions to be addressed by the evaluation, along with a preliminary indication of the proposed methodology to address these questions. A final subsection (B.4) raises some questions about what, if anything, should be done to limit the prevalence of prolonged use. By examining the IMF's role in a group of countries which have had especially intractable adjustment problems, the evaluation should also help to cast light on broader questions of program design and the appropriate balance between programs and surveillance activities.

A. Background Information

1. Main criticisms of the phenomenon of prolonged use of Fund resources (UFR)

Why might prolonged use be a problem? The prolonged use of Fund resources by certain countries has been criticized from a number of perspectives. Without taking any a priori view on their merits, the main criticisms, which should be taken into account in framing the evaluation, are as follows:

- prolonged UFR indicates a lack of effectiveness of IMF programs, as the repeated need to make use of IMF resources indicates a persistence of the balance of payment difficulties which such programs are intended to solve. (Meltzer, Sachs). In recent years, critics have argued that lack of ownership, leading to poor program implementation, is a key factor underlying the lack of effectiveness;

- it may encourage over-indebtedness either because of insufficient attention to debt sustainability issues, which cannot be satisfactorily addressed by a succession of flow treatments, or because a prolonged "IMF seal of approval" encourages overlending. (Bandow, Sachs);

- it may hinder institutional development in the borrowing countries, in particular by giving the IMF a lasting influence over their policy-making process, thereby undermining national sovereignty and often compromising the development of responsible, democratic institutions that correct their own mistakes and respond to changes in external conditions. (Meltzer); and

- it is in contradiction with the IMF's mandate as set forth in the Articles of Agreements, which stress that IMF resources should be made available to members "temporarily"[1] to cope with balance of payments disequilibria (Bird, Meltzer).

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[1] Such temporariness is dictated by the need to ensure the revolving nature of IMF resources.

However, it can also be argued that, in some cases, frequent recourse to IMF arrangements may be fully compatible with both the IMF's mandate and a broadly defined sense of economic efficiency:

- This could be the case for countries subject to frequent external shocks and for countries where external imbalances have deep-seated structural causes, which cannot be overcome over the short term, or only at a great cost to economic prosperity—an outcome IMF programs are specifically intended to avoid.

- Moreover, since the mid-1980s, most IMF arrangements intended to tackle the latter kind of balance of payments difficulties for low-income countries have been funded from special accounts, (i.e. the SAF, ESAF, and PRGF) and consequently have not exerted pressure on the revolving nature of general resources. Indeed, it has been argued that the views of the official international community on the appropriate length of Fund financial involvement has changed over time, at least for the low-income group of countries.

- Finally, it has also been argued that prolonged use of Fund programs may simply reflect the unwillingness of other lenders (be they private or public) to provide financing without the "seal of approval" they consider an IMF program to be.

2. Analytic description of the phenomenon of prolonged use of Fund resources (UFR)

a) Definition of prolonged use of IMF resources[1]

The prolonged use of IMF resources can be characterized in several different ways. The most common concepts of prolonged use found in IMF policy papers and in the literature are summarized below. The actual definition resulting from each concept can be made more or less restrictive by varying the threshold which separates prolonged users from "regular" users of Fund resources.

    (i)   prolonged effective use of the IMF general resources[2] (IMF, 2000)

This concept excludes programs financed from concessional trust funds (SAF, ESAF, PRGF) for low-income countries, as well as programs not leading to effective use of Fund resources, either because they are off-track (i.e. the country is not eligible to borrow) or because they are treated as "precautionary" by the country's authorities. This is the narrowest of the possible approaches and excludes important issues, such as the implications of failed/interrupted programs and the IMF's role in low-income countries.

    (ii)   prolonged time spent under IMF programs (IMF 1984, 1991)

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[1] For the purposes of this paper, the terms 'prolonged' and 'repeat' use will be used interchangeably.

[2] i.e. purchases from the general resources account (GRA), which are typically associated with a standby arrangement (SBA) or an Extended Fund Arrangement (EFF). The specific operational definition used in the 2000 review of prolonged UFR characterized as prolonged users countries with an outstanding use of Fund credit over 100 percent of quota and either nine years or more of effective UFR in the previous 30 years, or five years of effective use in the previous 15 years.

This concept encompasses both programs funded from the general resources account and from concessional trusts. It also includes programs which are only partially drawn upon. It may or may not include precautionary arrangements. It does not include drawings on Fund resources not backed by programs (such as first credit tranche purchases).[1]

A slightly different version of this concept is used by Bird to characterize frequent users of IMF resources. His definition is based on the number of programs signed by a country during a particular period, regardless of the type of arrangement at stake, its treatment (i.e. precautionary or not), its duration or its degree of completion. However, because many programs have a multi-year timeframe, such a definition does not measure the time spent under IMF programs.

> (iii)   prolonged indebtedness to the IMF (IMF, 1986; Meltzer, Jeanne and Zettelmeyer)

This concept focuses on the length of periods of indebtedness to the IMF, regardless of the origin of the outstanding obligations.[2] However, because IMF facilities have repayment periods varying from 2 to 10 years, this definition does not distinguish between countries which had only a few programs with relatively long repayment periods and those which had a large number of programs with shorter maturities. An interesting application of this approach was used by Jeanne and Zettelmeyer (2001) to derive estimates of the length of "lending cycles" to particular countries (see below).

In the current project, it is proposed to use mainly a definition based on time spent under IMF programs. More specifically, we would define as prolonged users countries which have been under [non-precautionary] programs[3] for at least 7 out of any ten years period during 1971-2000. Forty one countries would be covered by this definition, of which 15 countries would have had especially prolonged use (i.e. at least 15 years under IMF programs during the 30-year period 1971-2000). However, the evaluation will take account of the distinction between users of general and concessional resources. A full list of countries is given in Annex II.

Unlike the definition used in previous IMF reviews, the proposed definition does not impose any threshold on the outstanding use of Fund resources at the end of the period in order not to

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[1] The thresholds used in internal IMF definitions have varied overtime : in 1984, it was set at four or more programs with purchases in the previous 10 years ; in 1986 and 1991, it was raised to five annual arrangements in the previous ten years. In all cases, an additional criterion was an outstanding Fund credit of over 100 percent of quota at the end of the period.

[2] This concept was used to define prolonged users in a 1986 internal IMF review, with a threshold of "continuously outstanding credit tranche positions in excess of 25% of normal maximum for six years or more" in the previous 10 years.

[3] To the extent that they do not reflect any actual balance of payments need nor involve any actual use of Fund resources, it can be argued that precautionary programs should be excluded from the core definition. Yet, repeated precautionary arrangements also raise questions related to the effectiveness of Fund programs and their catalytic role. Moreover, since the commitment to treat an arrangement as precautionary is never binding for the member country, the resources committed under these arrangements are in fact not available for other members.

exclude countries which have completed their lending cycle, albeit a very long one, and in that sense have graduated from IMF support. On the other hand, the minimum amount of time under programs is deliberately set higher than in previous reviews of the phenomenon in order to concentrate on the most serious cases of prolonged use.

More generally, besides the core definition presented above, the evaluation will examine developments in the following sub-groups of countries (which may partially overlap):

- prolonged users of general resources
- prolonged users of concessional resources
- countries which graduate from IMF support after a period of prolonged use
- repeat users of precautionary arrangements
- Former Soviet Union countries, which became members of the IMF at the beginning of the 1990s, thus making their experience as prolonged users a recent—hence relatively short-one.

b) Prevalence of prolonged use of IMF resources[1]

A preliminary analysis of IMF programs databases since 1971 suggests that while the incidence of prolonged use has been affected by developments in the international economic environment, it is neither a recent nor a rare phenomenon regardless of the definition employed—nor is it one that is becoming less important (see Chart 1 in Annex I).

Evidence collected in previous internal reviews indicate that prolonged use started to build up in the second half of the 1970s and accelerated sharply in the first half of the 1980s as a result of the debt crisis so that by 1986, 25 member countries were prolonged users of the Fund's general resources according to the definition used in the 1991 review (see above). Thereafter, the availability of concessional resources resulted in a large shift of prolonged users from the general to the concessional window. In reality, however, the overall number of prolonged users had not declined since by 1990 five of them had fallen into arrears and been declared ineligible for further borrowing from the IMF. Prolonged use rose again in the 1990s, partly due to the expansion of the IMF membership to former Soviet Union states, and at end-2000 around 40 countries had been under Fund programs for over five of the previous 10 years. Only half of these programs involved concessional resources.

Another indication of the extent of prolonged use is found in Jeanne and Zettelmeyer (2001). They measure the timeframe in which IMF members actually eliminate outstanding obligations to the Fund—after taking account of new lending—which they call a "lending cycle".[2] They find that, for all developing countries, a surprisingly high 54 percent of the lending cycles initiated since the creation of the IMF were not completed at end-2000, and that the average length of such "incomplete" cycles is 18 years. Not surprisingly, the proportion of uncompleted lending cycles and their length is even higher for HIPC countries (respectively 90 percent and 23½ years). But they also find that 30 percent of emerging

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[1] The findings reported in this section are illustrated by a series of charts presented in Annex I.

[2] In the absence of subsequent programs, the length of each lending cycle should be equal to the sum of the program and the repayment period.

market countries[1] which initiated their lending cycle between 1947 and 1991 have yet to complete them, and, for these countries, the average length of time with outstanding obligations to the Fund is about 21 years, compared with an average lending cycle of 8 years for other members of this group.

3) Insights from the existing empirical literature on prolonged users and the causes of program interruptions

Previous empirical work on issues involving prolonged users and the causes of program interruptions have employed a range of econometric and other techniques, of varying robustness, and have covered different time periods. However, they suggest the following broad messages:

- While countries with lower per capita incomes are more likely to be recurrent users of IMF resources, this appears to reflect primarily the existence of the concessional facilities. Countries that are more vulnerable because of their dependence on primary exports or their landlocked nature also tend to spend longer periods in Fund-supported programs (Bird *et. al.* (2000), and Joyce (2001).

- Not surprisingly, frequent users typically have lower (gross) reserve levels, larger external current account deficits and higher debt service ratios than infrequent users. However, although there is some (weak) evidence that frequent users have larger fiscal deficits, this does not appear to reflect a bias toward "big" government: frequent users tend to have smaller government sectors, but they also score less well on various governance rankings. (Bird *et. al.* (2000)).

- The choice of exchange rate regime does not by itself appear to affect the frequency of borrowing from the IMF (Bird *et.al.* (2000)).

- While there is considerable evidence from many studies that participation in an IMF program helps a country exit from an external crisis (at least in the narrow sense of improving the external reserves position, etc.), preliminary work by Conway (2000) also suggests that the continuing reliance on participation in IMF programs lessens this "turnaround" effect—and that the cumulative effect of long-term participation in IMF programs may be associated with an increased probability of entering into a new external crisis (defined in terms of a renewed deterioration in reserves or pick-up in inflation).

- In comparing program projections and outcomes, Musso and Phillips (2001) conclude that programs that follow on from earlier programs are not associated with any systematic bias toward optimism or pessimism of projections for growth and external capital flows, but that "follow-on" programs do tend towards over-optimism in projections on the speed with which inflation will be reduced.[2] Moreover, there appears to be a bias toward optimism in projections of growth and the capital account in the "big" IMF programs (in

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[1] Defined by countries whose sovereign bonds are tracked in the J.P. Morgan Emerging Market Global Bond Index, which is an indication that they would normally be expected to have access to private market financing.

[2] Their sample excludes precautionary arrangements and those approved under the SAF/ESAF and PRGF.

terms of size of access to IMF resources) – probably reflecting the greater risks of falling into "bad" multiple equilibrium outcomes if confidence is not restored in the capital account crisis cases.

- In terms of influences on program implementation, Ivanova *et. al.* (2001), whose work, however, is not focused on prolonged users *per se*, find no significant difference between the effort the IMF invests (i.e. the magnitude of staff resources or intensity of missions) in implemented and non-implemented programs. However, several political economy variables, including the level of political stability and the strength of special interests in parliaments, do appear to have a significant influence on program implementation.

- In a detailed examination of the causes of program interruption among SAF and ESAF cases, Mecagni (1999) concludes: (i) in a majority of cases, the main cause of the interruption was fiscal in nature; (ii) however, interrupted programs were not more "ambitious" in their targeted fiscal adjustment than other programs; (iii) there was no obvious correlation between the number of structural performance criteria/benchmarks and the rate of observance of such conditionality; and (iv) most program interruptions appear to have had their origins in a variety of political factors.

B. Key Questions to be Addressed by the Evaluation and Proposed Methodologies

This section sets out the **main questions** that the evaluation project proposes to address along with a preliminary indication (in italics) of the methodological approach that is proposed for each question. For a number of issues, the most suitable methodology is likely to evolve as the evaluation proceeds, but the following broad approaches are envisaged, depending on the particular question posed. **External researchers who have done work on these issues are also invited to submit their findings.**

- Empirical analysis of a wider range of prolonged users, taken both as a whole and in various relevant groupings.

- Detailed case studies of three country cases (**Pakistan, Philippines**, and **Senegal**) that have been among the most prolonged users and also represent a mix of users under the general resources and the concessional facilities. Case studies are needed to address in greater depth many of the more qualitative issues. The purpose of the studies is to examine the **role of the IMF,** not to undertake a comprehensive assessment of a particular country's development strategy. They will involve detailed reviews of Fund documents, interviews with relevant staff, management and Executive Directors and country visits to seek the views of the authorities and external observers and stakeholders. Narrower reviews of specific issues in other country cases may also be undertaken.

- Econometric analysis on a large sample of prolonged and temporary users. However, given resource and time constraints, it is not proposed to launch major new research or data collection initiatives.[1] Such analysis would largely draw on and, where necessary,

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[1] Whenever possible, the evaluation will rely on existing IMF databases, including the internal database on program objectives, outcomes and conditionality (referred to as the MONA – monitoring of arrangements – database.)

adapt the work of Barro and Lee (2001), Bird *et. al.* (2000) Conway (2000), and Musso and Philipps (2001).

It should be recognized at the outset that much of the evidence, especially on the broader questions, will not be amenable to rigorous hypothesis-testing. One central methodological problem is that the decision to enter into an IMF-supported program, or series of programs, is endogenous. This affects both statistical comparisons across groups of countries and the results from case studies (where it could be argued that any sample of cases drawn from the group of prolonged users may be biased against the effectiveness of IMF-supported programs). In many cases, therefore, the evaluation will need to rely upon more qualitative judgments.

1. What does repeat use of IMF resources imply for the effectiveness of IMF programs in restoring balance of payments viability?

a/ What does the evidence on repeat users indicate about the main criticisms and the standard justifications of prolonged use?

Bearing in mind the distinction between repeat users of general (GRA) and concessional resources, the following sets of questions will be investigated:

- Which countries get prolonged access? Do they constitute a homogenous group or one that appears constant over time? How do they differ from temporary/infrequent users of IMF resources? Are there common economic characteristics among these countries, e.g. income level, susceptibility to shocks, level of indebtedness, deep-rooted structural problems etc.? Do internal political characteristics (or external political connections) appear to have any systematic effect on such access?

[Empirical analysis of the set of prolonged users, perhaps supplemented by econometric analysis on a large sample of prolonged and temporary user. However, the latter would not involve any major new research activities but would draw primarily on existing and ongoing work (e.g. by Bird, Conway, and Barro and Lee).

- Do there appear to be "healthy" cases of prolonged use, eventually leading to graduation from UFR or from concessional facilities (i.e. where, after a substantial period of IMF support to cope with deep-seated, structurally-related balance of payments difficulties, countries have "graduated" from IMF support)? What are the characteristics of a successful "exit" from prolonged use?

[Desk review of selected "graduators" from prolonged use]

- Are repeated IMF programs effective over the long-term (i.e. what is their impact on growth, inflation, etc.)? Do "repeat use" programs have a different impact than other Fund programs?

[Econometric analysis of impact on growth, inflation, BoP etc. This is one of the most difficult issues to answer in a rigorous manner, because of the endogeneity issues. The evaluation project would not seek to undertake any major new econometric research in this area, but would ascertain the effects of including variables measuring the frequency of previous UFR in recent research work.]

b) When repeat programs have not gone off-track, why have they failed to achieve balance of payments sustainability?

- Country related factors

    - Was it weak policy implementation, not sanctioned by program interruption? (If so, why not? could the desire to foster a catalytic effect lead to a "fear of interrupting"?)

    - Did adverse external shocks play a part? Could they have been better dealt with through contingency planning within the program design?

    - Were there factors beyond the reach of IMF programs at play, such as policy reversals or lack of sustained implementation beyond the term of the program?

    [Case studies supplemented where possible by an empirical analysis of a broader sample. For example, the latter would include an analysis of the use of waivers: are repeat users also repeat requesters of waivers?]

    - Why do some countries consistently fail to comply with programs that are repeatedly negotiated? Can such a pattern be identified ex-ante, e.g. through political science analysis, as suggested by the work of Dollar and Svensson (2000) and Ivanova *et al.* (2001) on the causes of program failures?

    [Political economy analysis of one or two program events drawn from the case studies – to assess how the tools used by political scientists might add to the IMF's ability to assess political feasibility and risks.]

- Program-design related factors

    - Was the programs' design adequate: to what extent was the need for one or more successor programs anticipated and recognized ex-ante? Were there frequent or systematic over-ambitious targets and/or over-optimistic assumptions about GDP and export growth? Did the design of programs reflect learning from previous programs?

    - Were the core problems similar at the beginning and at the end of the period covered by programs or did they evolve over time? How effective was conditionality in coping with "intractable" problems that continued from program to program?

    - To what extent is repeat UFR a reflection of the lack of "ownership" of IMF programs and is it detrimental to the effectiveness of conditionality?

    [While these are key questions, in most cases only qualitative answers are likely to be possible, drawing on the case studies. In addition, the MONA database will be used to compare prolonged users' and temporary users' programs, for example, by assessing the degree of correlation between frequency of UFR and (i) compliance with conditionality; (ii) volume of conditionality; (iii) (if possible) various measures of program ownership. To address the issue of how well prolonged program use has dealt with deep seated structural problems, the longer-term track record of programs in coping with one or more structural issues that are clearly in the IMF's area of primary responsibility will be investigated.]

- <u>Institutional factors</u>

    - To what extent did prolonged UFR reflect refinancing of Fund credit?

    [Analysis of the pattern of IMF lending and outstanding credit in prolonged and temporary users. Review of internal briefing papers for prolonged users.]

    - To what extent did prolonged use reflect the need for a framework to facilitate the rollover or restructuring of other external debt or to ensure the continued involvement of other sources of financing (in the private or official sector)?

    [Examination of the links between prolonged Fund programs and Paris Club reschedulings; interviews with donors and financial market participants]

2. What are the implications of repeat use of IMF resources (UFR) for the borrower and the IMF?

a) What are the effects of repeat UFR for the borrowers?

- Has repeat UFR encouraged over-indebtedness for lack of sufficient attention to overall debt sustainability issues? To what extent did repeat use reflect a lack of an adequate mechanism to deal with an existing but non-recognized debt sustainability issue?

    [Case studies. While it is probably not possible to test, in a rigorous quantitative manner, whether there is any significant link between over-indebtedness and prolonged use, an assessment of how medium-term debt sustainability was analyzed in Fund documents will be undertaken to see if there was a tendency toward over-optimistic projections of a return to external viability.]

- Is there any evidence that repeat UFR hinders institutional development or that it fosters it insufficiently?

    [Case studies.]

b) What are the implications of prolonged UFR for the IMF as a whole?

- Given the scope of the repeat/prolonged use phenomenon, is it a significant constraint on the revolving nature of IMF financial resources or a strain on administrative resources?

    [Analysis of the share of Fund financial and staff resources utilized by prolonged users, based on the IMF's financial records and budget reporting system]

- To what extent is prolonged UFR detrimental to the credibility of IMF programs and hence to the catalytic role of an IMF program?

    [The econometric problems involved in testing hypotheses on the catalytic role of IMF programs are considerable and it might be difficult to test for any specific impact of

repeat use.[1] As a minimum, the evaluation will draw upon existing surveys of country risk models and discussions with financial market participants to assess what account is taken of Fund programs and a country's track record under such programs.]

3. Is internal governance adequately structured to minimize ineffective repeat use of IMF resources?

● How has the Executive Board addressed the issue of prolonged UFR in the past? With what conclusions and operational implications?

[Review of IMF policy papers]

● *Ex-ante*, was there a systematic assessment of the likelihood of success of the programs involving repeat users, including political economy considerations?

Was there a candid assessment in briefing papers and staff reports of the problem of prolonged use, including of the timeframe needed to attain balance of payments sustainability? When that timeframe was known to exceed the duration of the program, what conclusions were drawn?

What consideration has been given to the preparation of an "exit" strategy for prolonged use including those under the PRGF?

What information was given to the Executive Board about the past performance of prolonged users and about the likelihood of success of the new program in reports on new requests for UFR? What did the Board say about those cases when approving the requests (in particular about the realism of program targets and assumptions and the path toward external sustainability)?

[Case studies and desk review of a broader set of prolonged users]

● *Ex- post*, was there any internal assessment of why repeat users' programs failed (i.e. either went off-track or failed to achieve balance of payments sustainability). What could be done to strengthen such ex-post assessments?

[Case studies]

● To what extent does prolonged use signal deficiencies in the surveillance process? For example, when Article IV surveillance and program negotiations are closely linked in time, are there any indications that surveillance assessments were insufficiently frank, perhaps to avoid undermining the credibility of agreed upon programs?

[Case studies]

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[1] Bird and Rowlands (2000) conclude that there is little empirical support for a systematic catalytic effect on private flows. They conclude that there is some support for a catalytic effect on official flows to low-income countries.

4. What, if anything, should be done to limit the prevalence of prolonged UFR?

a) In the design of programs

- Is the program design process realistic and candid regarding the time-horizon contemplated for the restoration of balance of payments sustainability and, where applicable, access to private capital markets? Are the constraints on the accumulation of external debt in programs structured effectively?

- With an emphasis on the role of conditionality and ownership:[1] should the IMF dedicate more resources to the analysis of the political economy context of its programs and to the potential adverse side-effects of the policies it advocates, in particular distributional effects?

b) In the internal IMF governance process

Both *ex-ante* (e.g., information provided to the Board, analysis of political risks) and *ex-post*, through a built-in (internal) evaluation process going beyond the mere compliance with program targets.

c) In the design and use of various facilities

The recent review of facilities has raised the premium asked from borrowers who do not repay their outstanding obligations promptly but in the current system, there is nothing (apart from ceilings on outstanding credit) that prevents or discourages indefinitely repeated programs:

- Should stricter rules regarding the access and/or rate of charge of repeat users be adopted?

- Should there be a more explicit "exit strategy" for prolonged users of facilities involving concessional resources? What should be the IMF's long-term role in such cases?

- What should be the IMF's role in cases where there is no pressing balance of payments need but there is a demand (either from the authorities, aid donors or private financial markets) for the overall monitoring role of an IMF program?

- Should precautionary arrangements be used more extensively? Is a prolonged use of precautionary arrangements desirable?

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[1] Dollar and Svensson contend that donor-effort variables, such as the number of conditions attached to a loan, the time devoted by staff to preparation and supervision etc., have little or no impact on the probability of success or failure of the adjustment program supported by the loan and that the main determinant of success/failure is the political context. Empirical work undertaken by Fund staff also indicates that the number of prior actions set in programs have limited value in establishing a basis for successful program implementation. (See "The Modalities of Conditionality—Further Considerations" (SM/02/13, 1/8/2002).)

d) In the relations with other donors and the framework for debt restructuring

The World Bank and the Paris Club will generally refrain from providing exceptional financing unless there is an on-going Fund supported program in place. Where balance of payments sustainability is a long-term objective, what are the trade-offs involved in alternative approaches to ensuring that whatever policy improvement has been achieved is sustained beyond the time-horizon of the program [so that negotiating successive Fund programs would not be the only way to achieve that goal]?

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This annex provides an overview of prolonged use of IMF resources over 1971-2000.

Chart 1 shows the evolution of prolonged use over the period according to various alternative definitions. It illustrates that, regardless of definition, prolonged use became important in the 1980s following the debt crisis and has remained significant since then. One, but not the only, factor of importance in the continued phenomenon was the protracted balance of payments problems faced by transition countries. Moreover, the introduction of concessional facilities in the second half of the 1980s has tended to amplify the extent of prolonged use rather than just change its nature.

Chart 2 summarizes in graphic form the history of lending arrangements of 51 countries which at some time during the last three decades made an intensive use of Fund programs. The vast majority of these countries were still under program at the end of the period. Of the 13 countries which were not, three are ineligible to use Fund resources and one no longer exists (the Federal Republic of Yugoslavia).

Table 1 provides additional information on this group of countries. It shows that nearly 40 percent of these countries made an intensive use of the Fund's general resources, in the sense that they had outstanding obligations to the general resources account (GRA) of over 100 percent of their quota for ten years or more. When both general and concessional resources are taken into account, more than half the sample had average outstanding liabilities over the thirty year period in excess of 100 percent of their quota. In other words, these are countries which made both long and large use of Fund resources.

Chart 1

Evolution of repeat UFR 1970-2000
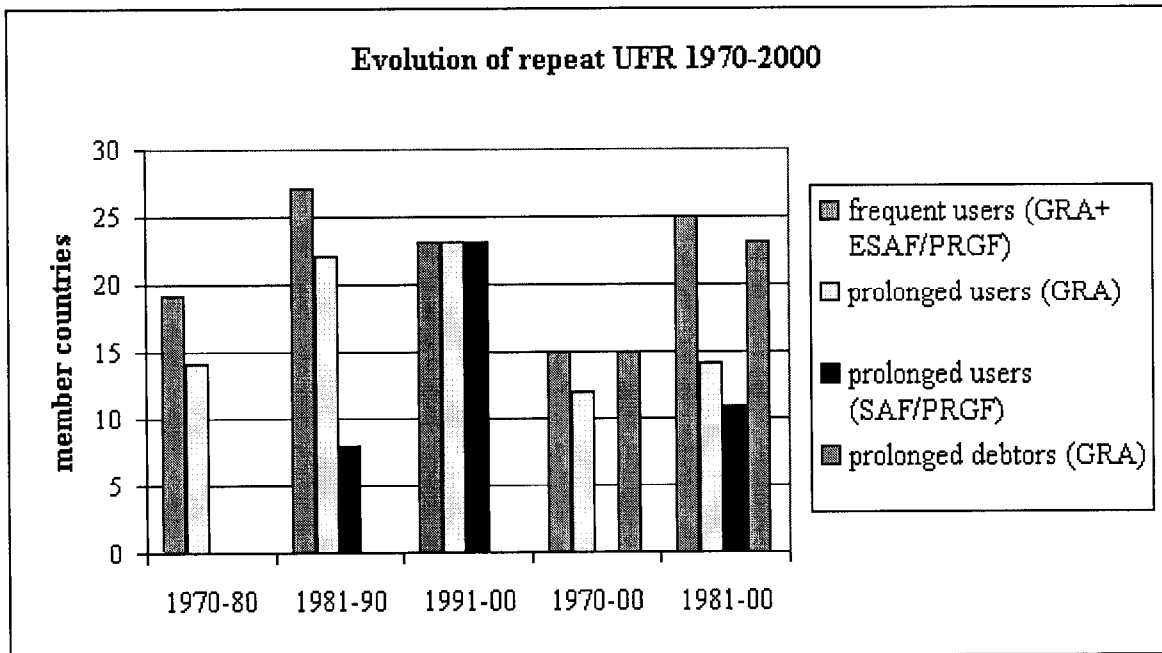
Repeat users defined as any of the three definitions below:

* more than 1 arrangement every three years on average over the period   (frequent users)
* more than half of the period covered by IMF programs   (prolonged users)
* more than 50% of quota in outstanding obligations for over 2/3 of the period   (prolonged debtors)

Evolution of severe repeat UFR 1970-2000
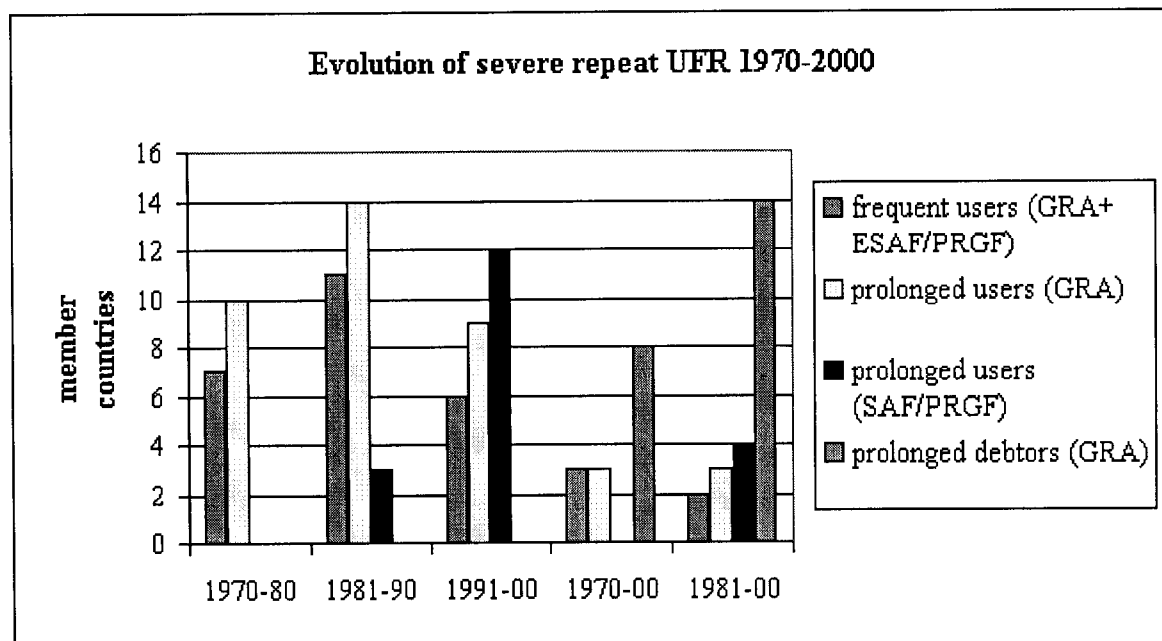
Severe Repeat users defined as any of the three definitions below:

* more than 1 arrangement every 2 years on average over the period   (frequent users)
* more than 2/3 of the period covered by IMF programs   (prolonged users)
* more than 2/3 of quota in outstanding obligations for over 3/4 of the period   (prolonged debtors)

Chart 2

Fund Arrangements during 1970-2000

GRA programs   SAF/PRGF programs   Precautionary programs

Fund Arrangements during 1970-2000

GRA programs   SAF/PRGF programs   Precautionary programs

Fund Arrangements during 1970-2000
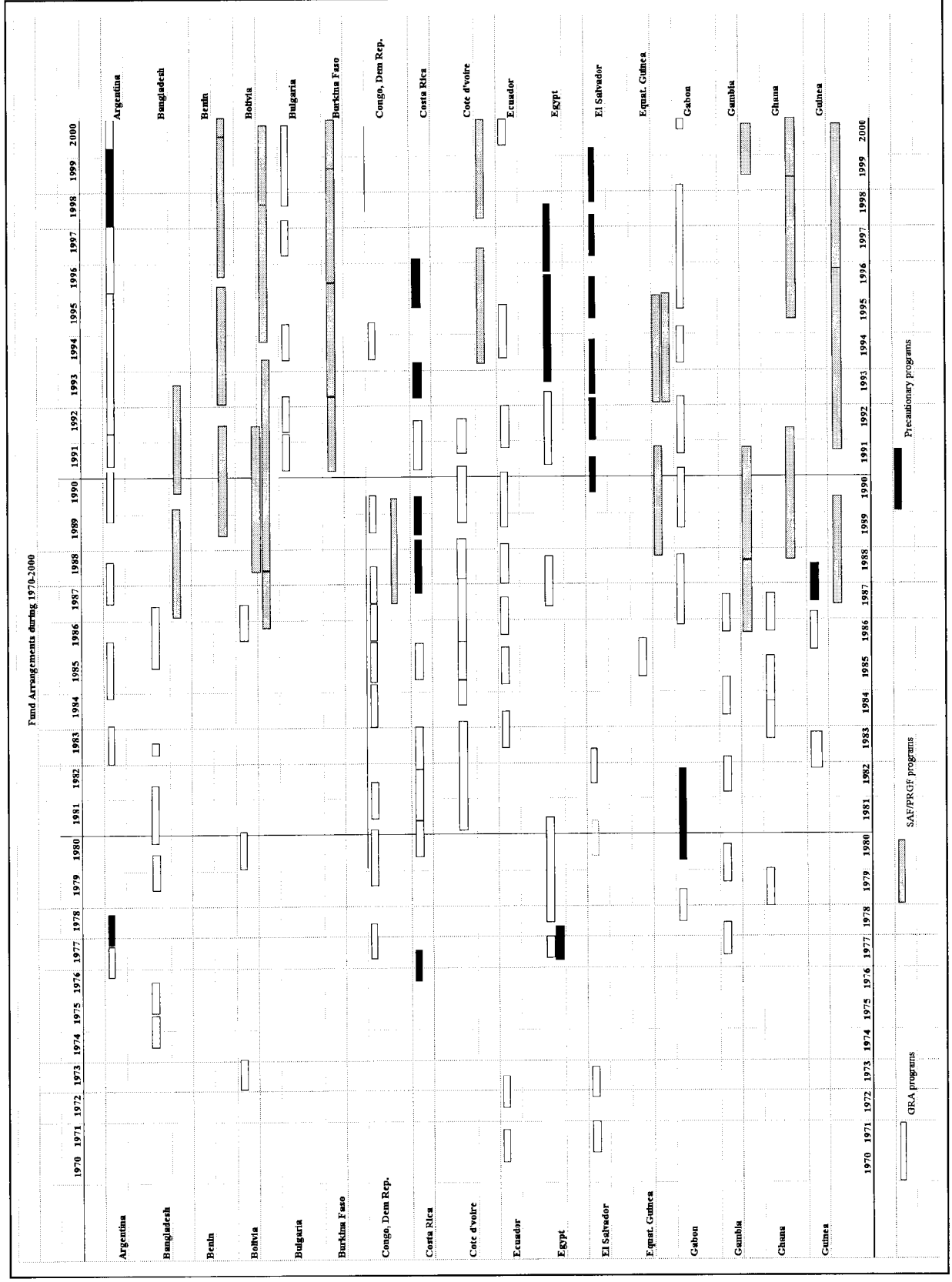
Table 1. Intensity of Use of IMF Programs, 1971-2000

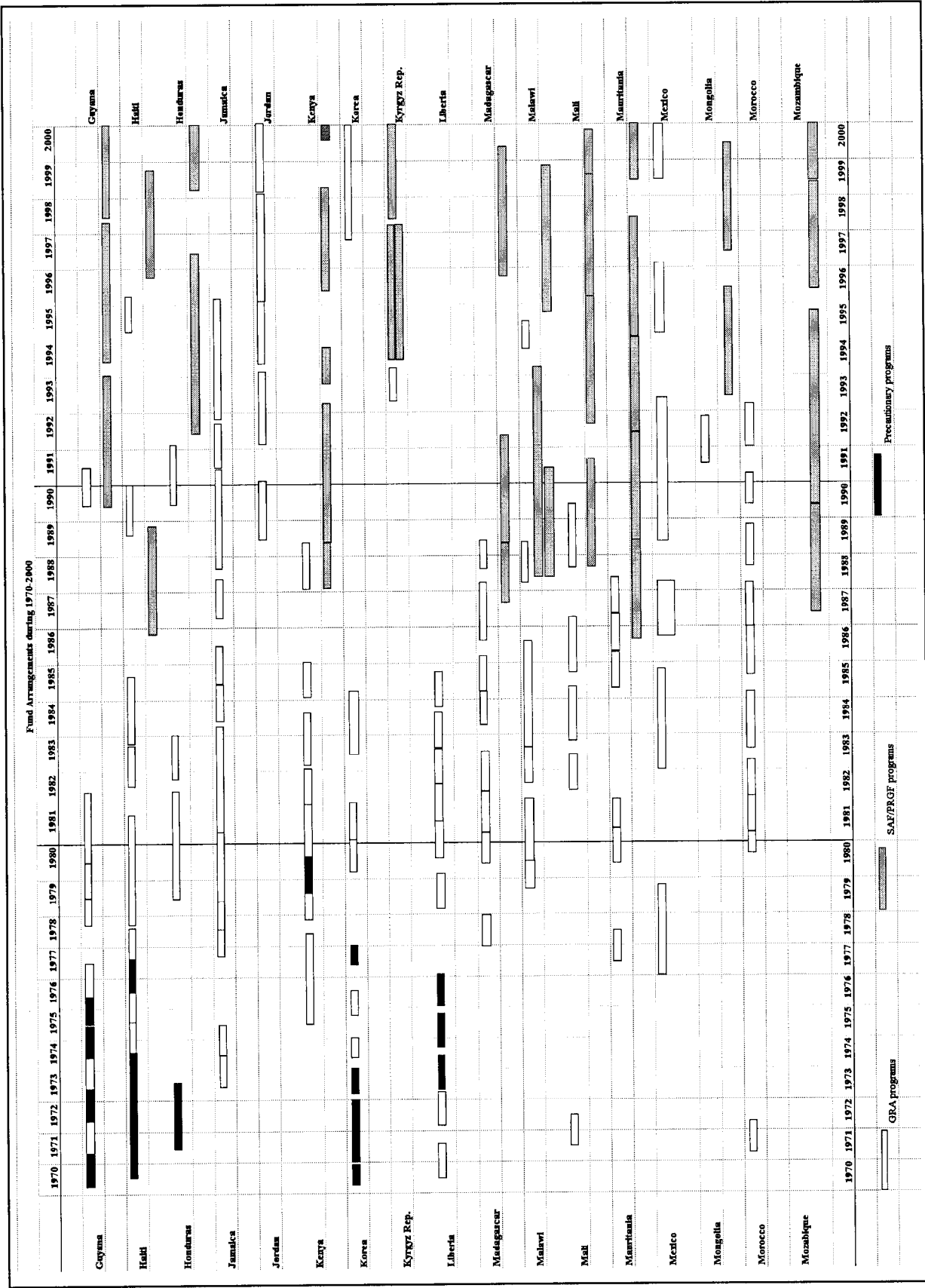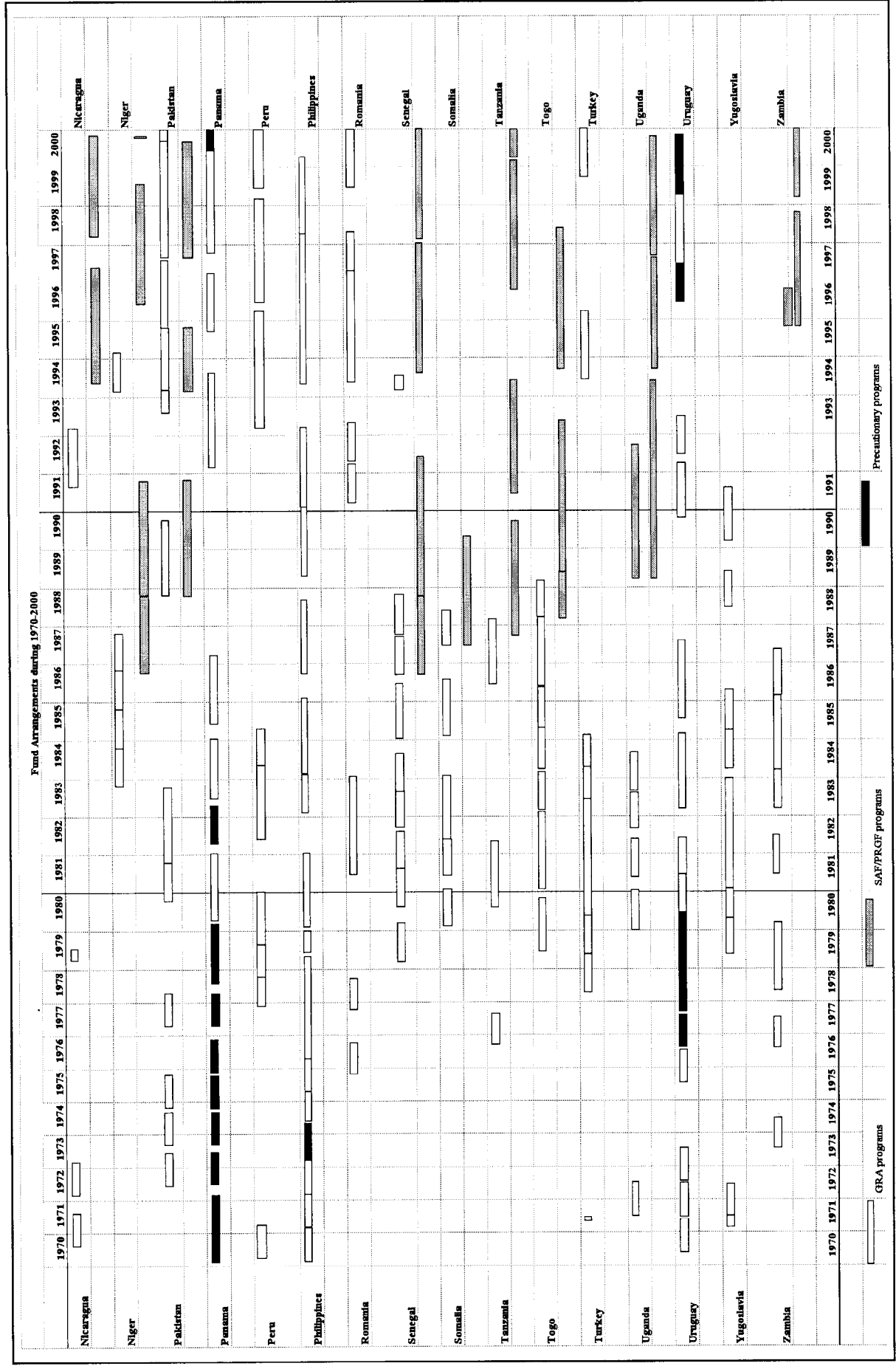| Country	Time under program (years)	First year under program	Last year under prgram	Number of programs				Use of Fund Credit (GRA) (years with outstanding			Sum of purchases over 1971-2000 2/	Average outstanding credits and loans 2/	Outstanding credits and loans as of Dec 2000 2/
				GRA	Of which Precautionary (0% drawn)	Non -GRA	% of Partially disbursed programs 1/	over 100% of Quota	over 150% of Quota	over 200% of Quota			
Philippines	24.7	1971	2000	16	1	0	60	24	18	4	1312	172	177
Pakistan	23.3	1972	2000	12	0	3	80	13	9	4	788	146	114
Haiti	21.0	1971	1999	13	5	2	80	5	3	0	418	70	50
Panama	20.8	1971	2000	17	11	0	50	13	8	8	666	110	24
Senegal	19.8	1979	2000	9	0	4	23	13	4	1	650	174	121
Kenya	19.2	1975	2000	9	1	4	67	13	10	6	864	160	36
Guyana	18.6	1971	2000	11	4	0	100	12	8	7	516	138	99
Uganda	18.4	1971	2000	5	0	5	30	8	7	5	638	167	134
Madagascar	18.2	1978	2000	8	0	3	64	9	7	6	577	114	65
Uruguay	18.2	1971	2000	16	7	0	44	3	2	2	607	69	37
Jamaica	18.1	1973	1996	12	0	0	67	19	15	11	1310	184	17
Mauritania	17.3	1977	2000	6	0	5	36	5	1	0	405	116	117
Mali	17.3	1988	2000	5	0	6	27	4	0	0	712	103	144
Malawi	17.2	1979	1999	6	0	5	55	11	9	7	577	160	91
Togo	17.2	1979	1998	7	0	3	70	5	1	0	324	96	73
Argentina	16.4	1976	2000	10	2	0	75	19	15	8	955	129	193
Bolivia	16.1	1973	2000	3	0	6	44	5	0	0	410	113	98
Burkina Faso	16.1	1991	2000	0	0	6	50	0	0	0	NA	47	143
Guinea	15.3	1982	2000	0	0	2	50	0	0	0	148	60	81
Ghana	14.4	1978	2000	4	0	1	40	8	5	5	380	133	61
Tanzania	13.3	1976	2000	2	0	5	57	7	3	1	382	106	125
Peru	13.3	1971	2000	9	1	0	100	23	13	4	773	135	67
Cote d'Ivoire	13.3	1981	2000	6	0	0	83	10	10	8	818	151	130
Egypt	13.2	1987	1998	7	3	0	100	3	0	0	270	45	0
Gabon	13.1	1978	2000	6	1	0	20	4	0	0	323	43	46
Korea	13.1	1971	2000	12	5	0	57	16	14	14	2855	225	273
Bangladesh	12.7	1974	1993	0	0	4	75	0	0	0	0	133	31
Zambia	12.6	1973	2000	7	0	3	70	19	16	15	948	200	179
Honduras	12.5	1971	2000	4	0	2	17	5	4	2	466	78	128
Niger	12.4	1983	2000	4	0	2	33	5	3	1	265	92	86
Costa Rica	11.9	1976	1997	10	5	0	80	9	4	2	520	69	0
Mexico	11.8	1977	2000	6	0	0	67	18	15	13	1385	182	0
Romania	11.8	1975	2000	8	0	0	75	12	3	1	996	82	34
Gambia. The	11.7	1977	2000	3	0	3	50	6	3	1	405	102	45
Yugoslavia	11.5	1971	1991	9	0	0	44	NA	NA	NA	NA	NA	NA
El Salvador	11.5	1971	2000	10	6	0	25	0	0	0	NA	33	0
Equatorial Guinea	11.0	1988	1996	2	0	3	60	0	0	0	NA	40	12
Benin	10.7	1989	2000	0	0	6	33	0	0	0	NA	50	104
Liberia	10.3	1971	1985	11	3	0	50	20	20	19	NA	219	315
Jordan	9.9	1989	2000	5	0	0	80	6	5	4	551	70	208
Morocco	9.9	1980	1993	10	0	0	60	16	10	8	837	127	0
Turkey	9.7	1971	2000	8	0	0	63	14	12	12	1272	142	333
Ecuador	9.6	1971	2000	9	0	0	67	8	6	3	502	65	38
Mozambique	9.5	1987	2000	0	0	5	40	0	0	0	NA	59	148
Congo, Dem Rep.	9.2	1984	1990	9	0	1	90	13	9	4	618	137	103
Nicaragua	9.2	1971	2000	3	0	2	80	1	0	0	280	32	100
Somalia	9.1	1980	1990	5	0	1	33	19	19	18	109	170	253
Mongolia	7.2	1991	2000	1	0	2	100	0	0	0	52	25	76
Kyrgyz Rep.	7.1	1993	2000	1	0	3	50	0	0	0	68	38	163
Latvia	7.1	1992	2000	6	4	0	0	2	0	0	120	21	21

1/ Out of the total of non precautionary programs.
2/ As a percentage of quota.

List of Prolonged Users Over 1971-2000

Very prolonged users (15 or more years under program)*	Other prolonged users (7 or more years under program over any 10 year period)*
Bolivia	Argentina
Cote d'Ivoire	Bangladesh
Guinea	Benin
Guyana,	Bulgaria
Jamaica	Burkina Faso
Kenya	Congo D.R.
Madagascar	Ecuador
Malawi	Equatorial Guinea
Mali	Gabon
Mauritania	Gambia
Pakistan	Ghana
Philippines	Haiti
Senegal	Honduras
Togo	Jordan
Uganda	Kyrgyz Republic
	Mexico
	Mongolia
(15)	Morocco
	Mozambique
	Nicaragua
	Niger
	Panama
	Peru
	Romania
	Somalia
	Turkey
	Tanzania
	Yugoslavia
	Zambia
	(29)

* Excludes precautionary arrangements. If they were included, the following countries would also appear on the list: Costa Rica, Egypt, El Salvador, Korea, Latvia, Liberia and Uruguay. In addition, Argentina, Haiti and Panama would be classified as very prolonged users.