Meeting the Needs of Low-Income Countries in a Time of Global Crisis
By Sukhwinder Singh

As the global financial crisis has swept from developed to developing countries, the hard-won economic gains of many low-income countries over past decade have come under threat. Stronger fundamentals and an aggressive policy response in many countries have dampened the impact. Nevertheless, many countries have been hit hard. In response, the IMF has undertaken unprecedented reforms aimed at supporting those countries. The reforms culminated in July with the announcement of billions of dollars of new resources to assist low-income countries; interest rate relief on all concessional IMF loans through 2011; permanently more affordable terms on IMF financing thereafter; and new lending instruments designed to better meet the diverse needs of low-income countries.

This was not a crisis of low-income countries' making. Indeed, many African countries were doing the right things prior to the downturn—strengthening fiscal positions, reducing debt burdens, and building comfortable cushions of foreign exchange reserves. Then they were hit by a "double blow": first, the food and fuel price shocks that of 2007-08, then the global recession. With economic activity retreating everywhere, the demand for exports from developing countries has dropped rapidly, commodity prices have fallen sharply, and foreign direct investment and remittance flows have tapered off.

A global recovery in 2010 should help. We expect growth in Africa to pick up next year. The legacy of good economic policies and an aggressive response in many countries to address the global slowdown, provide some hope that Africa can recover quickly. But this is by no means assured; the poorer countries may feel the after-effects for years to come. So extraordinary measures are required.

In March 2009, Tanzania President Jakaya Kikwete and IMF Managing Director Dominique Strauss-Kahn convened a conference in Dar-es-Salaam, Tanzania, to reinforce the partnership of the IMF and Africa. The IMF committed at the meeting to increase its support for Africa with more financing, greater flexibility, enhanced policy dialogue, and a further strengthening of Africa's voice in the Fund.

The IMF has moved quickly to provide more tools to help its low-income members overcome the impact of the crisis, and particularly to help ensure that the poorest do not bear the burden of economic adjustment. In so doing, we have responded to the call by the international community—as highlighted by the G20 heads of state at their April 2009 summit—for swift action. The measures we have taken are sweeping:

- We are dramatically stepping up our financial assistance to low-income countries. Our concessional lending capacity will double to around $17 billion through 2014. Lending in 2009 and 2010 alone is expected to reach up to $8 billion, four times the historical level and exceeding the G20 call for additional lending of $6 billion over the next two to three years. The new resources will include revenue from IMF gold sales.

- This scaling up is already evident. In the first eight months of 2009, the Fund committed new concessional lending of about $3 billion to countries in Sub-Saharan Africa compared with $1.2 billion for all of 2008.

- The Fund has distributed about $250 billion of Special Drawing Rights to all member countries according to their quotas in the IMF, of which over $10 billion have gone to sub-Saharan Africa, bolstering foreign exchange reserves and alleviating financing constraints.

- We have created a new architecture for our concessional financing facilities. The new instruments will be more flexible and tailored to the increasing diversity of low-income countries. The Extended Credit Facility provides flexible medium-term support, the Standby Credit Facility addresses short-term and precautionary needs, and the Rapid Credit Facility offers emergency support with limited conditionality.

- The new architecture is coupled with a doubling of access to financing under the facilities, which will help meet the needs of countries that have been hardest hit by the crisis.

- Low-income countries will receive exceptional relief on all interest payments due to the IMF through end-2011 on all concessional lending instruments.

- Future Fund financial support will include permanently higher concessionality, with a mechanism for limiting fluctuations in concessional interest rates as global interest rates change.

For many countries, increased IMF financial assistance has helped make it possible to maintain or even increase spending during the downturn. This, in turn, has created room for higher levels of pro-poor spending. We have also streamlined the conditions attached to IMF loans, to focus on core objectives. In the same spirit, we have recently adopted a more flexible approach to setting debt limits in Fund-supported programs to better reflect the considerable diversity among low income countries.

Africa has been the central focus of the IMF's scaled-up financial assistance to LICs. For example, in the wake of higher import prices and falling export earnings, FDI, and remittances, Ethiopia tapped into the high-access component of the Exogenous Shocks Facility in August, providing it with valuable foreign exchange to raise its low reserves, support its development programs and to protect against further shocks.

Despite our best efforts, the IMF alone cannot meet the needs of low-income countries. It is essential that the advanced economies follow through on their aid commitments—including the 2005 G7 promise at Gleneagles to increase aid to Africa by $50 billion by next year. Donors must act now so that this scaled-up assistance is reflected in their 2010 aid budgets.