Talking Points on IMF Policy towards Low-Income Countries

IMF financing is focused on supporting government expenditures in low-income countries, rather than constraining them:

- For example, on May 29, the IMF Board approved a $335 million loan to Tanzania. Without this additional financing from the IMF, Tanzania would have had to scale back its ambitious program of investment in basic infrastructure (i.e. roads and water) and development assistance for the rural poor.

IMF financing for poor countries is significantly more flexible now than in the past:

- The IMF created a new facility to support poor countries facing shocks beyond their control, the Rapid Access Component of the Exogenous Shocks Facility – RAC-ESF. On May 29, Kenya received a loan of $209 million from this facility without having to commit to policy conditions.
- The IMF has also streamlined lending conditions to focus on those factors critical to long-term growth. The IMF has eliminated structural conditions (such as privatizations) from all lending. The IMF has also stopped placing inflexible limits on public sector wage bills in poor countries.

Debt vs. Grants

- The IMF has been a full participant in the Multilateral Debt Relief Initiative, which calls upon the IMF, the International Development Association of the World Bank, and the African Development Fund to cancel 100 percent of their debt claims on eligible low-income countries.
- IMF lending to low-income countries is done under generous terms, with an interest rate of only 0.5% and a five-year grace period.
- The Administration shares concerns about preventing a new build-up in poor countries' debts.
- The IMF uses the Debt Sustainability Framework, under which countries at higher risk of debt distress receive MDB assistance as grants instead of loans to prevent them from taking on more debt than they can handle.

Additional Debt Relief

- Pursuant to the G20 London Leaders' Declaration, the IMF is working to mobilize additional support for low-income countries.
- On top of excess proceeds from the sale of a portion of its gold holdings, the IMF is also working to mobilize other internal cash resources to support these countries.
- The Administration expects that the IMF will provide even more support than envisaged by the London communiqué, and with greater concessionality, including crisis-related debt service relief for the poorest countries.
- IMF gold sales will help low-income countries. From a combination of gold sale proceeds and other internal IMF resources, the IMF is expected to make up to $5 billion in subsidies available to low-income countries over the next seven years. This will help to further stabilize poorer nations during the global recession.