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An IMF Advocacy Toolkit for Organizations Based in the Arab World

2024

Introduction

This toolkit is part of a **three-part series** designed to empower civil society organizations (CSOs), activists, and policymakers with a thorough understanding of the International Monetary Fund (IMF), its operations, and how to engage with it effectively. Each toolkit builds on the previous one, offering a structured, step-by-step approach to navigating the IMF's complex world of policies, loans, and conditionalities. When applicable, each toolkit will also show where to find the relevant information on the IMF website.

Toolkit 1: Understanding the IMF's Core Functions and Loan Types
This first toolkit lays the foundation by explaining the mandate of the IMF, its core functions, such as its role in economic surveillance, financial stability, and global monetary cooperation. It will also provide a detailed breakdown of the **types of loans** the IMF offers, including concessional and non-concessional lending, and introduce the concept of **conditionality**—the policy changes required by the IMF in exchange for its financial support. The aim is to equip CSOs with the knowledge to understand how these functions and loans shape a country's economic policies and, in turn, affect its social fabric.

Toolkit 2: The IMF's Institutional Architecture and Departments
The second toolkit will explore the internal structure and governance of the IMF, including its key departments and how decisions are made. This section will include an analytical look at the power dynamics within the IMF, especially in terms of voting rights and quota shares that influence decision-making processes. For instance, departments like the **Fiscal Affairs Department** play pivotal roles in shaping global financial policies, which we might have interest in unpacking. Additionally, the Strategy, Policy, and Review (SPR) Department operates as a critical, often opaque player in IMF decision-making. SPR reviews all major reports and programs to ensure alignment with the Fund's overarching policies, exerting influence that can at times prioritize institutional objectives over country-specific nuances. Understanding these departments is crucial for knowing how to influence or monitor IMF programs, especially those that affect social spending and economic reforms in borrowing countries. This toolkit will also analyze how the IMF's structure might limit the participation of developing countries, while advanced economies often dominate discussions.

Toolkit 3: How and When to Conduct Advocacy with the IMF
This final toolkit will focus on **advocacy strategies** and guide CSOs on how to effectively engage with the IMF and national governments during loan negotiations or program implementation. Building on the insights from the first two toolkits, it will offer practical advice on using IMF reports, such as Article IV consultations, as advocacy tools. It will also explore key moments in IMF processes—like loan disbursements, reviews, and conditionality monitoring—when advocacy can have the most impact. The toolkit will include examples of successful CSO engagements and highlight how to propose alternative policies that align more with social justice and human rights priorities.

Toolkit 1: Understanding the IMF's Core Functions and Loan Types

The International Monetary Fund (IMF) is an organization that holds a central position in the global financial system. It was founded in 1944 to foster international monetary cooperation and ensure financial stability. While the IMF's primary aim is to stabilize economies and prevent crises, its interventions—mainly through loans—have far-reaching effects on the economic and social fabric of the countries it engages with.

The IMF operates by providing financial assistance to its member governments, which are facing severe economic crises or seeking to avoid such crises. However, unlike development banks, the IMF's financing is *fungible*,[1] meaning it is not tied to specific projects or sectors. Instead, countries receiving IMF loans have wide discretion in how the funds are used, as long as they comply with the terms laid out by the IMF. Almost all IMF loans come with conditionalities, requiring governments to implement specific policy changes to secure the funding. These conditions are typically aimed at balancing the budget, focusing on measures like increasing revenues (e.g., through tax reforms) and reducing expenditures (often by cutting social services or subsidies). While the intention is to restore economic stability, this approach has sparked widespread criticism for both its social consequences and its limited success in achieving sustainable fiscal balance. Austerity measures, particularly those that target social spending, often deepen social inequalities and can even stifle economic recovery by reducing demand and slowing growth. There are more holistic, equitable alternatives that can be pursued. For example, reforms that broaden the tax base—by tackling tax evasion, implementing progressive taxation, or taxing wealth and capital more effectively—are ways to increase revenue without placing additional burdens on vulnerable populations. In contrast, many IMF-imposed conditions, such as austerity measures, broad fiscal reforms, or structural adjustments, have been widely criticized for disproportionately affecting social welfare and low-income groups. In what follows, the toolkit breaks down the IMF's key functions, namely lending, economic surveillance, and capacity building.

1. Lending with Conditionality

One of the IMF's most significant roles is the provision of loans to member countries experiencing **balance-of-payments problems**—situations where a country cannot pay for its imports or service its external debt. These economic crises often trigger financial instability, prompting countries to seek IMF assistance. The IMF offers different lending **instruments**, each tailored to the country's level of development, the nature of the crisis the country is facing, and the specific financial needs. These loans can be categorized into two main types: **non-concessional loans**, which are provided at market-based interest rates, and **concessional loans**, which are offered at low or zero interest rates to low-income countries.

[1] In this context, fungible means that the IMF's financial assistance is not restricted to specific uses or projects. Instead, the funds provided can be used by recipient governments in any area they deem necessary to stabilize their economy. This contrasts with development banks, which often earmark funds for particular projects (like infrastructure or health initiatives).

Before diving into the specific loan instruments, it is important to understand some key financial mechanisms associated with IMF lending.

- In addition to standard interest rates, the IMF applies **surcharges** on loans that exceed a country's borrowing quota or if the loan duration is extended. These surcharges are meant to encourage timely repayment, but for countries already facing economic distress, they can increase the debt burden. Surcharges have been a point of criticism from civil society organizations, as they can exacerbate fiscal challenges in borrowing countries, particularly when a country is struggling to meet IMF loan conditions.
- **Special Drawing Rights (SDRs)** are another international reserve asset created by the IMF to supplement the official reserves of its member countries. They are not a currency but represent a claim to freely usable currencies of IMF member states. The value of an SDR is determined by a basket of five major international currencies: the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound. SDRs can be used to bolster a country's reserves, make repayments, or exchange for hard currency, offering liquidity without creating additional debt. The IMF periodically allocates SDRs to member countries based on their quotas.

The following table details the different loans often disbursed by the Fund and their specific functionalities.

Loan Type	Target Countries	Duration	Repayment Period	Conditions
Stand-By Arrangement (SBA)	Middle- and high-income countries (and sometimes, low -income)	Flexible, typically 12-24 months	Due within 3¼-5 years of disbursement	Reforms to restore macroeconomic stability
Extended Fund Facility (EFF)	Middle- and high-income countries (but sometimes low-income)	3 years (can be extended up to four years)	4.5-10 years	Deeper reforms for structural challenges and economic weaknesses
Flexible Credit Line (FCL)	Countries with strong economic fundamentals	1-2 years (renewable)	Over a 3¼ to 5-year period	No reforms required, mostly through pre-qualification
Precautionary and Liquidity Line (PLL)	Countries with sound policies but some vulnerabilities	6 months or 1 to 2 years	Over a 3¼ to 5-year period	Light conditions (e.g., fiscal discipline, inflation targets), and if needed prior actions
Standby Credit Facility (SCF)	Low-income countries that have reached some macroeconomic stability with some episodic financing needs	1-3 years	Grace period of four years and a final maturity of eight years.	Reforms for short-term balance-of-payments issues, through prior actions and structural benchmarks and performance criteria
Extended Credit Facility (ECF)	Low-income countries	3-5 years	Grace period of 5½ years, and a final maturity of 10 years.	Short-term stability, growth-aligned structural reforms.
Rapid Credit Facility (RCF)	Low-income countries with urgent balance of payments crises	Single disbursement	Grace period of 5½ years, and a final maturity of 10 years	Minimal conditionality, for urgent needs

**A detailed annex describing each loan is provided at the end of this article.

In addition to the above loans, the IMF also offers **emergency financial assistance** through instruments designed to respond to crises quickly:

1. **Rapid Financing Instrument (RFI)**: The RFI provides emergency financial assistance to all member countries facing urgent balance-of-payments needs due to natural disasters, conflicts, or economic shocks. The RFI is non-concessional, meaning it is subject to market-related interest rates, and is available to both low- and middle-income countries. It offers rapid disbursement with minimal conditionality, and repayment is expected within three to five years. Low-income countries, however, often prefer the Rapid Credit Facility (RCF), which is concessional with zero or low interest rates, though the RFI may be chosen when faster, more flexible support is required and when a full economic program is not feasible

2. Catastrophe Containment and Relief Trust (CCRT): The CCRT provides grants for debt relief to the poorest and most vulnerable countries affected by catastrophic natural disasters or public health crises. Established in 2015 to replace the Post-Catastrophe Debt Relief Trust, it was initially designed to assist with crises like the Ebola outbreak and was later expanded to provide urgent relief during the COVID-19 pandemic. The CCRT supports eligible low-income countries by temporarily covering their debt service payments to the IMF, enabling them to focus resources on containment, recovery, and managing exceptional balance of payments needs.

Finally, introduced by the IMF in 2022, the Resilience and Sustainability Trust (RST) is designed to help low-income and vulnerable middle-income countries address long-term structural challenges that pose risks to macroeconomic stability, such as climate change, pandemic preparedness, and other sustainability threats.

The RST offers concessional financing for low-income and vulnerable middle-income countries, while non-concessional loans are available to more advanced economies. The financing terms under the RST are designed for long-term transformation, with loans available for up to 20 years and a grace period of up to 10½ years. This makes the RST a relevant tool for countries in the Arab region that are vulnerable to climate-related risks or other structural challenges.

2. Surveillance of Economic Developments

Another critical function of the IMF is its role in economic surveillance, which allows the Fund to continuously monitor the economic and financial health of its member countries. Through surveillance, the IMF assesses risks related to fiscal stability, inflation, exchange rate management, public debt, and financial sector vulnerabilities, providing countries with policy recommendations to address these risks.

Article IV

At the heart of the IMF's surveillance function is the **Article IV Consultation** process, mandated by Article IV of the IMF's Articles of Agreement. This article requires member countries to undergo annual reviews, where the IMF assesses critical aspects of a country's economic health, including fiscal policies, monetary policy, exchange rate practices, financial sector stability, and overall economic growth prospects. Through these consultations, the IMF provides tailored policy advice, highlighting areas that may pose risks to domestic stability or international financial markets. In addition, the consultations often incorporate discussions with civil society organizations, local stakeholders, and government agencies, offering a platform for some engagement on economic and social priorities. Whether this engagement has been effective will be the subject of another article.

Each member country undergoes these consultations, on an annual or biannual basis. In cases where a country is going through extreme financial distress, the consultations happen more frequently. During the consultation, the IMF staff, which includes individuals from its various departments, reviews a country's economic performance and engages with government authorities and at times various civil society groups (though this is not always the case) to provide a thorough assessment. The outcome of these reviews is a detailed report that highlights the IMF's policy advice on issues like fiscal policy, monetary policy, and external debt management. These reports are made public, offering valuable insights into the IMF's stance on a country's economic health, and allowing civil society organizations (CSOs) to engage with the findings to advocate for more socially inclusive policies, as this consultation offers insights into what a potential IMF program might look like. Additionally, the consultation can provide insights into future policy loans from both the IMF and World Bank, as the two institutions often coordinate in areas like structural reforms and more recently, social protection. This makes it crucial for CSOs to monitor these reports to anticipate policy shifts and advocate accordingly

Debt sustainability analysis

A critical tool within the IMF's surveillance framework is the **Debt Sustainability Analysis (DSA)**. This analysis evaluates whether a country's debt levels are sustainable over the long term and assesses the risk of debt distress—that is, the risk that a country may be unable to meet its debt obligations, potentially leading to default or severe financial strain The DSA is crucial in identifying vulnerabilities in a country's debt structure and guides the IMF's recommendations on fiscal and economic policies. It is used both in **surveillance** and in the context of IMF-supported programs to determine if a country needs debt restructuring, relief, or additional financial assistance. By understanding a country's ability to manage its debt obligations without implementing disruptive fiscal measures, the DSA helps shape the broader policy recommendations provided by the IMF.

The IMF's **Debt Sustainability Framework (DSF)** has been tailored to suit different types of economies. For low-income countries, for example, the DSF helps ensure that concessional financing does not lead to excessive debt burdens, while for middle-income countries, the focus is on ensuring that access to market-based financing does not result in unsustainable debt levels. In the **Arab world and MENA region**, where many countries face high public debt burdens, the DSA plays a role in guiding policy adjustments aimed at maintaining fiscal stability without compromising economic growth. However, it is not free of criticism.

In addition to individual country assessments, the IMF conducts multilateral surveillance by monitoring global and regional economic trends. Reports like the World Economic Outlook (WEO), Global Financial Stability Report, and regional economic updates provide broader insights into the state of the global economy and key risks that could impact financial stability. These reports are useful not only for policymakers but also for CSOs and researchers who need to understand global financial dynamics and their potential impact on specific countries.

How to access documents

To access specific IMF reports for your country, such as Article IV consultations, start by visiting the IMF's Country Information page. From there, either select your country from the list or use the search bar to quickly find the relevant page. Once on your country's page, scroll down to sections such as "At a Glance" or "Country Data," where you will find key information like the latest Article IV consultations, country reports, and executive summaries. These sections will usually provide direct links to important documents, such as Staff

Reports and other IMF assessments. By clicking on these links, you can either view summaries or download full reports in PDF format.

3. Capacity Building and Technical Assistance

As part of its broader influence over economic policies, the IMF also provides capacity building and technical assistance to its member countries, that ideally aim at improving their ability to manage public finances, monetary policies, and governance structures. While this support is presented as an effort to strengthen economic management, civil society organizations (CSOs) should understand how this assistance is integrated into broader IMF programs and policies, particularly when it is linked to fiscal reforms that may have social consequences.

The IMF’s technical assistance often targets key areas such as tax reform, public financial management, and central banking operations. This is done through a combination of training, policy advice, and hands-on support, with the aim of improving the efficiency and transparency of economic governance. However, these interventions are typically framed within the IMF's broader policy priorities, such as fiscal consolidation and debt management. For example, technical support might focus on increasing a country’s tax revenue, but this often involves implementing tax systems that could disproportionately affect lower-income populations, such as increasing VAT or broadening the tax base without necessarily addressing wealth inequality.

In addition, the IMF’s capacity building initiatives often accompany its lending programs. When a country borrows under IMF agreements such as the Extended Credit Facility (ECF) or the Stand-By Arrangement (SBA), technical assistance may be provided to help governments implement the required reforms. This includes strengthening their ability to manage public debt or streamline public services, ensuring the country can meet the financial and policy targets agreed upon as part of the IMF's conditions for lending.

Countries in the **Arab region**, for example, have received significant technical assistance from the IMF, particularly in managing public finances, improving governance structures, and reforming fiscal systems. This technical assistance has helped governments in the region improve their institutional capacity, but it is important for CSOs to scrutinize how these reforms affect public services and whether they prioritize social welfare alongside economic stability.