INTERNATIONAL MONETARY FUND

FACTSHEET

The Poverty Reduction and Growth Facility (PRGF)

For ten years, the IMF has made poverty reduction and growth the lynchpin of its lending to low-income countries. To make its support more flexible and tailored to country needs, the IMF will soon replace the PRGF with the Extended Credit Facility. This new lending window will be in line with the objectives of a country's own poverty reduction strategy. For now, a number of PGRF programs are still in place, and the information listed here remains current.

Supporting Poverty Reduction and Growth

In September 1999, the IMF established the Poverty Reduction and Growth Facility (PRGF) to make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries. Reviews of the PRGF by IMF staff in 2002 and by the Independent Evaluation Office (IEO) of the IMF in 2004 confirmed that the design of the programs supported by PRGF lending has become more accommodating to higher public expenditure, in particular pro-poor spending. Building on this progress and in response to a 2007 IEO report on the IMF and Aid to Sub-Saharan Africa, the IMF in 2007 adopted principles to promote the full use of external aid while maintaining macroeconomic and debt sustainability. A review of PRGF program design by the Executive Board in September 2005 found that while macroeconomic outcomes in low-income countries had improved markedly in recent years, per capita income remains low. The review noted in particular, the importance of broad economic institutions for sustained growth and stability, and the need to manage carefully increased aid flows.

PRGF-supported programs are framed around comprehensive, country-owned Poverty Reduction Strategy Papers (PRSPs). PRSPs are prepared by governments with the active participation of civil society and other development partners. PRSPs are then considered by the Executive Boards of the IMF and World Bank as the basis for concessional lending from each institution and debt relief under the joint Heavily Indebted Poor Countries (HIPC) Initiative. The targets and policy conditions in a PRGF-supported program are drawn from the country's PRSP.

Program Strengthens Governance and Promotes Growth

First, the principles of **broad public participation and country ownership** are central to the PRGF. Discussions on the policies underlying PRGF-supported programs are more open than in the case of other Fund arrangements, since they are based on the nationally-owned PRSP. With increased national ownership, PRGF conditionality has become more parsimonious, focused on the Fund's core areas of expertise, and limited to measures that have a direct and critical impact on the program's macroeconomic objectives.

Second, PRGF-supported programs reflect closely **each country's poverty reduction and growth priorities** and, **as long as macroeconomic stability is maintained**, seek to **respond flexibly to changes in country circumstances and pro-poor priorities**. Key policy measures and structural reforms aimed at poverty reduction and growth are identified and prioritized during the PRSP process, and if feasible, their budgetary costs are assessed.

Countries' budgets under PRGF-supported programs reflect this analysis. A modification of fiscal targets to allow for more pro-poor spending in response to higher-than-expected aid inflows or an augmentation of access in response to a sudden shock such as the recent food and fuel crisis well exemplify the flexibility underlying PRGF-supported programs.

Third, PRGF-supported programs focus on strengthening **governance**, in order to assist countries' efforts to design targeted and well-prioritized spending. Of particular importance are measures to improve public resource management, transparency, and accountability. PRGF-supported programs also give particular attention to the **poverty and social impacts** of key macroeconomic policy measures.

IMF and World Bank Focus on Comparative Advantages

PRGF-supported programs are designed to cover only areas within the primary responsibility of the IMF, unless a particular measure is judged to have a direct, critical macroeconomic impact. Areas typically covered by the IMF include advising on prudent macroeconomic and financial policies and related structural reforms such as exchange rate and tax policy, fiscal management, budget execution, fiscal transparency, and tax and customs administration.

When appropriate, the IMF draws on World Bank expertise in designing PRGF-supported programs, and the staffs of the Fund and Bank cooperate closely on conditionality. The Bank staff takes the lead in advising the authorities in the design of poverty reduction strategies in areas such as poverty assessments, monitoring, structural and sectoral issues, social issues, and costing priority poverty-reducing spending.

Lower Lending Rates

Concessional lending under the PRGF is administered by the IMF through the PRGF-ESF and PRGF-HIPC Trusts. The PRGF-ESF Trust borrows resources from central banks, governments, and official institutions generally at market-related interest rates, and lends them on a pass-through basis to PRGF-eligible countries. The difference between the market-related interest rate paid to PRGF-ESF Trust lenders and the rate of interest of 0.5 percent per year paid by the borrowing members is financed by contributions from bilateral donors and the IMF's own resources.

Terms of the PRGF

- As of August 2008, 78 low-income countries are eligible for PRGF assistance.
- Eligibility is based principally on the IMF's assessment of a country's per capita income, drawing on the cutoff point for eligibility to World Bank concessional lending (currently 2007 per capita gross national income of $1,095).
- Loans under the PRGF carry an annual interest rate of 0.5 percent, with repayments made semiannually, beginning 5½ years and ending 10 years after the disbursement.
- An eligible country may normally borrow up to a maximum of 280 percent of its IMF quota under a three-year arrangement, although this may be increased to 370 percent of quota in exceptional circumstances. In each case, the amount will depend on the country's balance of payments need, the strength of its adjustment program, and its previous and outstanding use of IMF credit. The expected average access under the initial three-year arrangement is 140 percent of quota, and 125, 110, 90, 70, and 50 percent of quota for second through sixth-time users of the facility, respectively. "Low-access" PRGF arrangements with a standard level of 10 percent of quota may be used for members with little or no immediate balance of payments need, which still desire a Fund engagement as guidance for policy implementation. PRGF-eligible members with per-capita income above 75 percent of the cutoff for World Bank concessional lending, or members borrowing on commercial terms, may combine PRGF arrangements with lending from the IMF's non-concessional Extended Fund Facility.

Countries Eligible for the IMF Poverty Reduction and Growth Facility (PRGF)
as of August 2008

1	Afghanistan	40	Liberia
2	Albania	41	Madagascar
3	Angola	42	Malawi
4	Armenia	43	Maldives [1]
5	Azerbaijan	44	Mali
6	Bangladesh	45	Mauritania
7	Benin	46	Moldova
8	Bhutan	47	Mongolia
9	Bolivia	48	Mozambique
10	Burkina Faso	49	Myanmar
11	Burundi	50	Nepal
12	Cambodia	51	Nicaragua
13	Cameroon	52	Niger
14	Cape Verde [1]	53	Nigeria
15	Central African Republic	54	Pakistan
16	Chad	55	Papua New Guinea
17	Comoros	56	Rwanda
18	Congo, Democratic Republic of	57	Samoa [1]
19	Congo, Republic of	58	Sao Tomé and Príncipe
20	Côte d'Ivoire	59	Senegal
21	Djibouti	60	Sierra Leone
22	Dominica [1]	61	Solomon Islands
23	Eritrea	62	Somalia
24	Ethiopia	63	Sri Lanka
25	Gambia, The	64	St. Lucia [1]
26	Georgia	65	St. Vincent and the Grenadines [1]
27	Ghana	66	Sudan
28	Grenada [1]	67	Tajikistan
29	Guinea	68	Tanzania
30	Guinea-Bissau	69	Timor Leste
31	Guyana	70	Togo
32	Haiti	71	Tonga [1]
33	Honduras	72	Uganda
34	India	73	Uzbekistan
35	Kenya	74	Vanuatu [1]
36	Kiribati [1]	75	Vietnam
37	Kyrgyz Republic	76	Yemen, Republic of
38	Lao, P.D.R.	77	Zambia
39	Lesotho	78	Zimbabwe [2]

[1] During the World Bank's FY 2009, an exception to the GNI per capita operational cutoff for IDA eligibility (a 2007 GNI per capita of US$1,095) has been made for some small island economies; these countries continue to be eligible for PRGF and IDA assistance, notwithstanding their per capita income levels.
[2] Since September 24, 2001 ineligible due to overdue financial obligations to the PRGF Trust.

THIS INFORMATION IS CURRENT AS OF JULY 2009