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To: Members of the Executive Board

From: The Secretary

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Review of Concessional Financing and Policies— Potential Policy Reforms

INTRODUCTION

1. The COVID pandemic has hit low-income countries (LICs) hard, calling for stepped-up support from the international community.¹ Most LICs had been gradually narrowing the large income gaps vis-à-vis advanced economies in the decade since the Global Financial Crisis, notwithstanding significant development challenges. But the impact of the pandemic on output in LICs has been severe, with the scope to provide policy support for economic recovery being extremely constrained by very limited fiscal space and tight financing constraints. High levels of financial support from the international community, including the Fund, will be needed in the next few years to contain the impact of the pandemic on output levels and growth potential in LICs, and to support resumed convergence towards per capita income levels in higher income countries.²

2. This paper examines the Fund’s facilities for providing financial support to LICs and discusses potential adjustments to this architecture in response to the exceptional circumstances that LICs face in the coming years. The main emphasis is on how the facilities might be made “fit-for-purpose” in the period 2021-25—in particular, to create the space for higher lending levels to LICs to help meet exceptional needs—although some issues of longer-term relevance are also explored. The adequacy of facilities for the longer term can be revisited in the next full review of LIC facilities, likely to occur in 2025.

3. The Fund provides concessional financing to eligible countries via the Poverty Reduction and Growth Trust (PRGT). There are currently 69 countries eligible to access the concessional facilities: the terms *PRGT-eligible countries* and *low-income countries* (LICs) are used interchangeably to refer to this grouping.³ Annex 1 provides key information on these facilities and how they are financed: features of the PRGT facilities of particular relevance for this paper are described in Box 1.

¹ See the staff paper on “*Macroeconomic Developments and Prospects in Low-Income Countries 2021*” (March 12, 2021)—henceforth the *2021 LIC Report*—for a full discussion of the impact of the pandemic on LICs and an assessment of LICs’ likely financing needs for the period 2021-25.

² The *2021 LIC Report* points to financing needs of some \$200bn to step up the spending response to COVID (\$180 bn) and rebuild or maintain external buffers (\$20 bn), with an additional \$250 bn in investment spending needed to boost convergence with AEs.

³ The rules-based system for determining the set of countries that are PRGT-eligible—which is reviewed and applied every two years—is taken as given: the next such review is set for early 2022.

4. The discussion is developed in four parts:

- *The first section* considers the case for modifying current parameters of the PRGT facilities (e.g., limits on annual and cumulative access to PRGT resources, the terms of PRGT lending, the ground rules for “blending”).
- *The second section* considers the case for substantially increasing the levels of access provided in Fund-supported programs for LICs, which higher access limits would help accommodate. The ground rules for determining access under Fund-supported programs would remain unchanged: rather, objectives of Fund-supported programs would include stronger support for recovery and growth, along the lines discussed in the *2021 LIC report*. These programs would typically involve larger external financing needs, higher levels of Fund lending, and, absent commensurate scaling-up by other donors, greater “burden-sharing” by the Fund.

Box 1. PRGT Facilities: Selected Features

Eligibility

PRGT-eligible countries, currently 69 in number, can be divided into subgroups based on the conditions under which they can access PRGT resources (see Annex 2 for a full listing):

- *Blend countries* (shorthand for “presumed blenders”) can access PRGT resources only in conjunction with a request for GRA resources, with the financing combined in a mix of 1:2 (PRGT: GRA) subject to a cap on the level of access to PRGT resources.
- *Non-blend countries* can access PRGT resources up to the relevant access limits (see below): this group can be further divided into i) countries eligible to seek *exceptional access* (EA) to the PRGT (EA non-blends) and ii) countries not eligible to seek EA. All 28 EA non-blend countries have per capita income levels that lie below the IDA operational threshold (currently \$1,185).

Distinctive features

PRGT lending facilities (available only to LICs) differ from the regular GRA facilities (available to all members) in some important dimensions:

- Lending terms for the PRGT’s concessional lending facilities are more generous than are the lending terms provided under the corresponding GRA facility.
- The PRGT’s main lending vehicle, the ECF, has distinct policy requirements from its GRA counterpart.
 - In programs supported under the GRA (such as the EFF), policy actions taken during the program period are expected to be sufficient to strengthen the balance of payments (BoP) to a point where repurchases from the Fund can occur without strain.
 - The ECF is available to LICs that face *protracted BoP needs* (needs that can be resolved only over an extended period): a program supported under the ECF should strengthen substantially and in a sustainable manner the country’s BoP position.
 - All PRGT financing instruments are expected to support policies that lead toward a sustainable macroeconomic position that is consistent with strong and durable *poverty reduction and growth*.^{1/}
- Access to PRGT resources is subject to *hard caps*: 41 countries face a hard cap on access at 100/300 percent of quota,^{2/} while the 28 countries eligible for EA can access a further 33/100 percent of quota, provided that they meet the PRGT EA criteria.

1/ PRGT-supported programs with an initial duration of more than two years are expected to be informed by an explicit Poverty Reduction and Growth Strategy (PRGS).

2/ The notation “A/B percent of quota” refers to annual and cumulative access limits, respectively. Unless otherwise stated, the access limits cited are the access limits set during the *2018-19 Review of LIC Facilities*: several of these limits have been increased on a temporary basis during 2020-21.

Box 1. PRGT Facilities: Selected Features (concluded)

Blend countries seeking access to PRGT resources must also access the GRA: any program request would be supported by both a GRA and a PRGT arrangement, and hence must meet the policy requirements of the GRA as well as the PRGT. *A blend country is thus similarly positioned to a GRA-only country, except that it can access up to one-third of its Fund financing on (cheaper) PRGT terms.*

Non-blend LICs are required to access the GRA only if they are seeking access to Fund resources above the relevant hard caps on PRGT access: an access request in excess of these hard caps moves them to a position where their economic program must meet the policy requirements of the GRA (and PRGT).

The “protracted BoP problem” feature of the ECF implies that Fund engagement with a non-blend LIC can be built upon a series of ECF-supported programs, as the country seeks to resolve its protracted BoP problem. The Fund’s engagement strategy can therefore be explicitly medium-term in nature, looking beyond the time horizon of a single program.

PRGT Access Limits

Access limits are a key element of the Fund’s risk management framework, intended to balance the need to provide members and markets with confidence regarding the scale of possible Fund financing with the need to preserve Fund liquidity and the revolving character of Fund resources (see SM/16/10). There are, however, important differences between the role of these limits in the PRGT and the GRA.

The PRGT access limits serve two functions:

a) ration demand for scarce concessional resources across eligible LICs:

- With limited Fund capacity to provide concessional financing, the access limits constrain the extent to which an individual country can tap these scarce resources.
- Increasing the **normal access limits** (100/300) raises the level of concessional resources that all non-blend countries can obtain under a program.
- Increasing the **EA hard limits** (133/400) raises the level of concessional resources that EA countries can obtain if they meet the EA criteria; two countries tapped EA during 2010–20.

b) play a prudential role in regard to obtaining EA: an EA-eligible country seeking access to PRGT resources above the normal limits must meet the standards of the PRGT EA criteria.

The GRA access limits are primarily prudential in nature: countries seeking access to the GRA above these limits must meet the standards of the GRA EA criteria. GRA resources are not inherently scarce (given the borrowing needs of the typical individual borrower country): surcharges are used as a mechanism to discourage excessive use and to promote faster repayment.

- *The third section* considers how trust funds might be used to leverage additional resource flows alongside a Fund-supported arrangement and/or to target support to subgroups of countries.
- *The fourth section* discusses how Fund engagement with LICs—specifically with those LICs not required to blend GRA and PRGT resources (see below)—might be qualitatively improved to achieve better outcomes from Fund financial support over time.⁴

5. The final section of the paper presents concluding remarks and sets forth an illustrative package of reforms based on the various options discussed in the paper.

⁴ For discussion of the distinctions between “blend” and “non-blend” LICs, see “*The IMF’s Lending Framework for Low-Income Countries: Next Steps*”, Attachment 3 (FO/DIS/21/23)

6. A companion note, prepared by the Finance Department, considers the financial implications of potential reforms for the PRGT (which is already underfunded) and how the required resources (subsidies and loans) could be raised.

MODIFYING KEY FEATURES OF THE PRGT FACILITIES

7. We consider here possible changes to three key features of the PRGT facilities: i) the limits on annual and cumulative access to PRGT resources; ii) the terms on which PRGT loans are provided; and iii) the determinants of when/how LICs are required to blend GRA and PRGT funding. We also note possible reforms to enhance the effectiveness of Fund lending in fragile/conflict-affected states (FCS).

A. Increase PRGT Access Limits

8. The current limits on normal access to PRGT resources (100/300 percent of quota) were set at the conclusion of the 2018-19 Review of Facilities for LICs.⁵ The limits were set at levels assessed to be consistent with maintaining the long-term annual lending capacity of SDR 1.25 billion: the new limits were one-third higher (in terms of 2016 quotas) than the previous limits, which had previously been increased by 50 percent in July 2015. The surge in lending since the onset of the pandemic and expected in the next few years (even without changes to current access policies) has eroded PRGT self-sustainability; substantial injections of resources will be needed to address this erosion (see companion paper).

9. Given the large projected financing needs of LICs, there is a strong case for raising PRGT access limits, both to provide non-blend countries with greater access to low-cost financing from the Fund in the years ahead and to limit the number of countries that are required to access the GRA. To ensure that all non-blend countries benefit, we focus attention on the case for raising the normal access limits: this (see Box 1) would i) raise the level of concessional resources that all non-blend countries can obtain under a program and ii) expand the access space within which these countries can make use of the flexibility of the ECF. The benefits from these changes are initially concentrated among those countries that are already close to the current normal access limits, where the normal cumulative

Text Table 1. PRGT Credit Outstanding > 150 Percent of Quota: Non-Presumed Blenders
(As of end-2020)

Country	% of Quota
Chad	298
Cameroon	255
Madagascar	224
Burkina Faso	221
Malawi	216
Niger	215
Mali	205
Ghana	198
Mauritania	181
Grenada	181
Rwanda	178
Central African Republic	174
Sierra Leone	170
Tofo	169
Guinea	169
Mozambique	162

⁵ To simplify, we abstract from the temporary increases in access limits in place through end-June 2021.

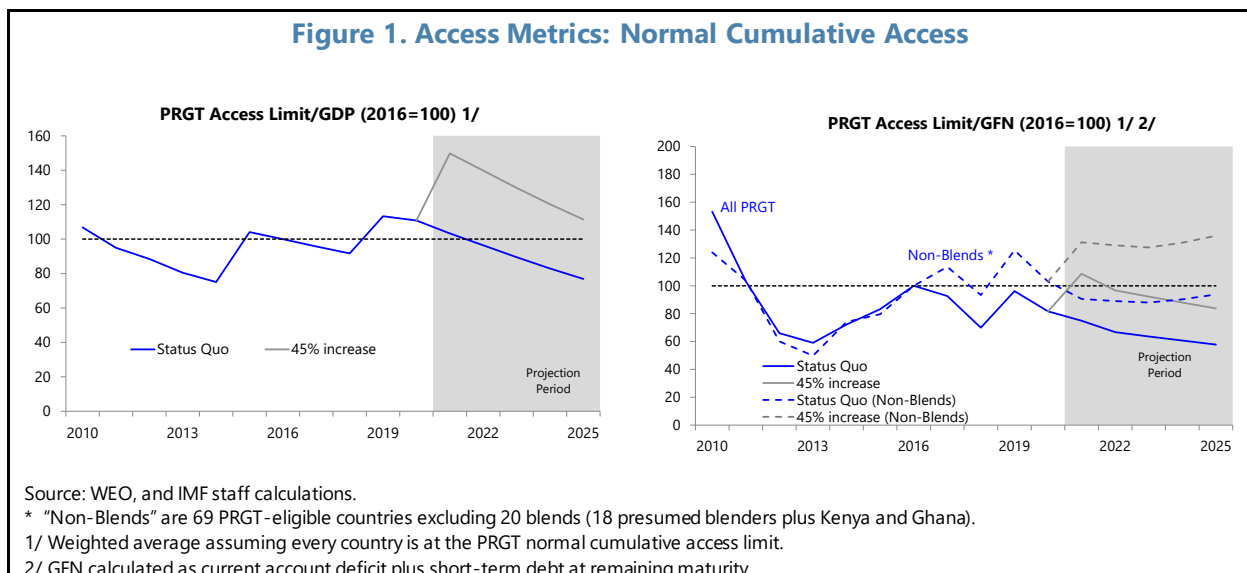
access limit (NCAL) is the key constraint (text table 1): the benefits would extend to a wider group of countries in the event that lending levels are scaled up significantly (see section 2 below).

10. The benefits to non-blend countries would come at a cost to PRGT finances. Higher access limits would accommodate higher demand for concessional resources, in turn increasing resource gaps in the PRGT’s endowment. Safeguards to PRGT resources would also be reduced, since EA-eligible countries accessing resources at levels in the range between the prior and new normal access limits could do so without having to meet the higher policy standards of the EA criteria.

11. To what levels should normal access limits be raised? Given the rationing role of PRGT access limits, the answer is influenced by financing constraints: the larger the increase, the larger the gains to beneficiaries and the larger the fiscal cost to the PRGT, creating a cost-benefit trade-off (see companion paper for analysis). Abstracting from financing constraints, where might the levels be set? The following principle has strong intuitive and equity appeal:

Non-blend countries requesting access to PRGT resources at levels viewed as “normal access” for the membership should be able to borrow the entire amount from the PRGT.

12. Applying this principle, PRGT normal access levels would be set at the levels that trigger application of i) the EA framework in the GRA and ii) the Policy Safeguards for High Combined Access to GRA-PRGT Resources (PS-HCA)—which are currently 145/435 percent of quota. These new levels would remain unchanged until the next LIC facilities review, when they would be readjusted.⁶ Figure 1 shows how these access limits affect the conventional access metrics used in previous facility reviews.



⁶ Adjusting access limits between concessional financing reviews would substantially complicate the assessment of PRGT self-sustainability, making it conditional on assumptions as to the timing/scale of changes in GRA parameters.

13. At what levels might the PRGT EA limits be set?

- One can make the case that any access above the 145/435 limits should come at a higher cost to the borrower (via drawings from the GRA): the member is accessing very large amounts of concessional resources, squeezing out future borrowers that may have equally legitimate needs. This would imply eliminating PRGT EA.
- One can also make the case that non-blend countries should receive all their financial support from the PRGT: if the authorities' program warrants Fund support, that support should come in the form of concessional resources.⁷ This would mean eliminating the hard caps on PRGT access for non-blends, with all countries seeking access in excess of the 145/435 threshold subject to the PRGT EA criteria.

14. Raising the normal access limits as proposed here would eliminate the additional scrutiny and adjustment requirements now faced by EA-eligible countries seeking PRGT access above the 100/300 limits but below the 145/435 limits. This could be replaced with a requirement for intensified scrutiny of debt sustainability and capacity to repay the Fund for all requests for PRGT access by non-blend countries assessed to be at high risk of/in debt distress or, alternatively, by all countries seeking access levels in excess of the current normal (100/300) limits.⁸

15. Access to PRGT resources could alternatively be increased by raising the EA limits, while leaving normal access limits unchanged. An approach along these lines would indeed raise access to concessional resources for all EA-eligible countries whose programs meet the PRGT EA criteria, but it would not raise PRGT access levels for i) all non-EA non-blends and ii) EA non-blends whose programs do not meet the EA criteria.⁹

16. To conclude:

- Given the large financing needs of LICs, raising access limits to PRGT resources is warranted: this would best be accomplished by raising normal access limits to PRGT resources, which will raise the need for PRGT subsidy resources (see companion paper).
- If there is sufficient financing room, there is a strong equity argument that all non-blend LICs requesting access that is deemed "normal" under the GRA and the PS-HCA (145/435) should be able to obtain the entire amount from the PRGT.

⁷ This proposal is less dramatic than it appears: it would have an impact only in cases where access levels under a program exceed 145/435 (178/535 for countries that can tap PRGT EA, if PRGT EA were retained).

⁸ For further discussion on possible safeguards, see SM/21/33, which also proposed including the requirement that programs for countries at high risk of debt distress or in debt distress include the reduction of debt vulnerabilities as a core program objective. Some 70 percent of non-blend countries are currently at high risk of/in debt distress.

⁹ Thus, Chad (and other EA-eligible countries) could obtain extra PRGT access for programs that meet the PRGT EA criteria: Cameroon (and some 20 other non-EA eligible countries) would still need to request access to the GRA to meet funding requests in excess of the 100/300 normal limits.

- This argument could be further expanded to make the case that all non-blend LICs that meet the PRGT EA criteria should receive all Fund financing from the PRGT.
- The safeguards currently provided by applying the PRGT EA criteria to requests for PRGT resources above normal limits (100/300) could be replaced by intensified scrutiny of debt sustainability and capacity to repay the Fund in such cases, or in all cases where the country is at high risk of/in debt distress.

B. Extend PRGT Loan Maturities

17. With PRGT loans carrying zero interest rates since 2010, lending terms can be made more generous either by extending repayment periods or by accompanying the provision of loans with grant resources.¹⁰ The case for providing grants alongside Fund lending is discussed in section 3 below: we focus here on providing longer repayment periods on ECF credits (e.g., loans at 20-year maturities).

18. The issue of loan maturities can be viewed through a number of distinct lenses:

- Viewed as a single transaction, a low-interest rate loan with a longer maturity/grace period provides greater financial benefits to the borrower than an otherwise similar loan with a shorter maturity/grace period: the borrower has use of the cheap funding for a longer period of time.
- But the Fund is not a one-off lender to non-blend LICs: it has the capacity and mandate to provide successor programs to help countries address protracted BoP problems. The stream of lending and repayments from repeated programs overlap over time and should be seen as an overall package of support.¹¹ The cash flows associated with a single arrangement with loans of long maturities can be broadly replicated through a series of arrangements with loans at current ECF maturities (see Box 2). The key distinction between the two cases is that, for a given trajectory of Fund credit outstanding, long maturity lending involves fewer/less frequent programs—with less Fund program engagement likely to weaken safeguards for Fund resources and for Fund-supported policies. The catalytic role of the Fund in providing comfort to lenders/donors suggests that more frequent Fund programs would also generate higher inflows from these sources over time.¹²
- Lending at long maturities runs counter to the established model, consistent with its mandate, that the Fund lends at medium-term maturities to help countries address BoP needs, whether

¹⁰ ECF and SCF lending rates are linked to market rates through a set of rules: “low for long” short-term interest rates should ensure that these rates (capped at a maximum of 0.5 percent) remain at zero for the foreseeable future. Lending rates have been zero since the current LIC facilities architecture was introduced in 2010.

¹¹ There is an analogy here with the evaluation of an MDB’s support for countries in crisis: one has to look at the debt service payments being made alongside the injection of new concessional resources to assess net contribution.

¹² One could argue that, under current circumstances, the maturity of ECF lending should be increased to, say, 15 years (10 years grace) on a temporary basis, since the high levels of lending in 2020-2024 will translate into large repayments in the second half of the decade. But a bunching of repayments can be handled via new arrangements in due course that would spread net repayments well into the next decade.

short-term or protracted—in contrast to the MDBs, which provide longer-term development finance in support of investments that yield long-term returns.

- The Fund’s “lender of last resort” function is predicated on the revolving nature of Fund resources. Lending at long maturities to help tackle BoP needs (even protracted need) ties up those resources for many years, rather than freeing them up earlier for use in supporting other countries facing difficulties.
- As noted in the companion financing paper, lengthening the maturity of PRGT loans will require a broad restructuring of the loan agreements with member countries that provide the PRGT’s loan resources.¹³

19. Longer loan maturities may have greater relevance in the particular context of FCS, where disruptions to the process of moving from conflict to a robust security situation, coupled with greater stability in political institutions and rebuilding of state capacity, may produce periods where there are significant interruptions to active Fund engagement. *This issue warrants further analysis as part of the Fund’s efforts to improve the effectiveness of its engagement in FCS.*

¹³ Note that an increase in the maturity of loans could only be implemented for new lending: the PRGT instrument explicitly precludes the rescheduling of the repayment of trust loans.

Box 2. Loan Maturities and Repeated Lending

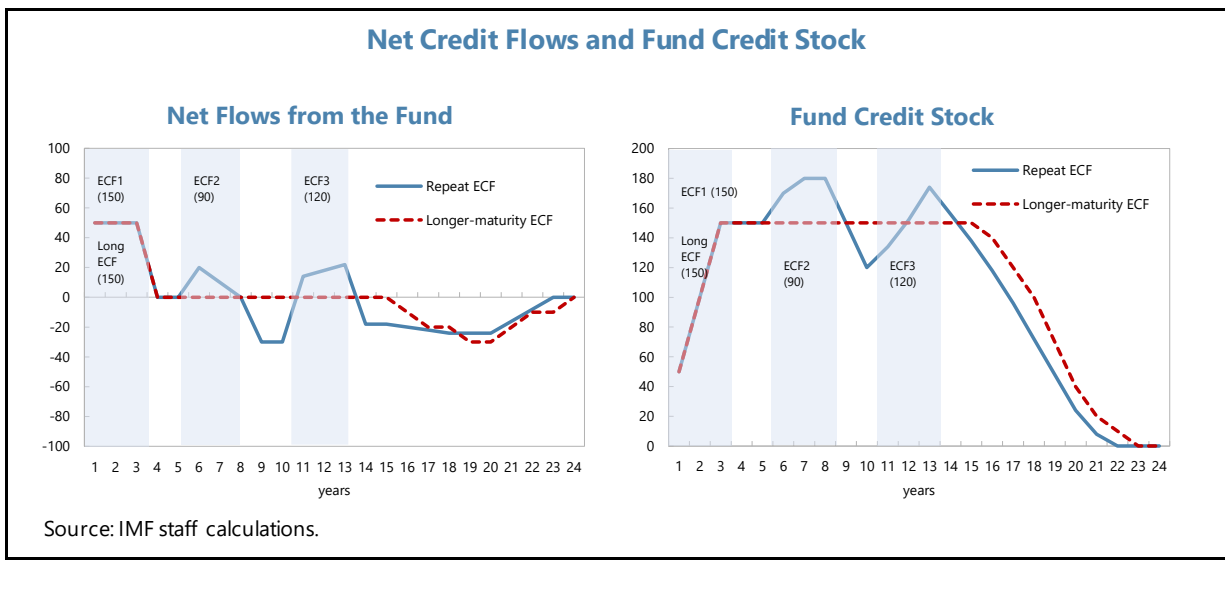
Viewed in isolation, a low-interest rate loan with a longer maturity/grace period provides greater benefits to the borrower than an otherwise similar loan with a shorter maturity/grace period: the borrower has use of the cheap funding for a longer period of time. This benefit is reflected in a lower present value of the debt repayments (provided that the interest rate is less than the discount rate).

But the Fund is not a one-off lender to non-blend LICs: it lends (and can plan to lend) on a repeated basis, with lending arrangements and repayments overlapping over time. As a corollary, the cash flows associated with a single arrangement with loans at long maturities can be broadly replicated with a series of arrangements at shorter (ECF) maturities. The case for longer/shorter maturities thus does not hinge on the benefits/costs of more/less generous cash flows, but rather on the merits of less frequent versus more frequent arrangements.

An example serves to highlight the trade-offs involved. Option 1 is a three-year Fund arrangement in the amount of 150, with loans provided at zero interest rate with a grace period of 15 years and repayments over the ensuing five years. Option 2 is a series of three-year arrangements in year 1 in the amount of 150, year 6 (90), and year 11 (120), with loans provided at zero interest rate with a grace period of 5 years and repayments over the ensuing 5 five years.

Net flows from the Fund to the country and the stock of credit outstanding under the two options are shown in figure 1. The stock of credit fluctuates modestly under option 2 but remains broadly aligned with the evolution of the stock of credit under option1. Further fine-tuning (uneven annual access in arrangements, programs every four years, etc.) could be used to narrow the remaining gaps but are not needed to support the point of broad replication.

Figure 1 also illustrates the number of years in which a Fund program is in place: the first three years under option 1, nine of the first 13 years under option 2. If having a Fund program in place is seen as beneficial/providing more safeguards, option 2 (with its ECF maturities) is the better choice.



C. Simplify the Rules for Blending and Blending Access

20. LICs with relatively high income levels and/or substantial access to international financial markets are usually able to access PRGT resources only in conjunction with GRA resources (Box 1): there are exceptions for countries in debt distress or at high risk of debt distress that do not have prospective market access.¹⁴ Being moved from non-blend to blend status has significant implications for a LIC, raising the average cost of borrowing and requiring that its Fund-supported arrangement meet the policy requirements of both the GRA and PRGT. This introduces a key division between blend and non-blend countries—while blurring the difference between a blend country and a non-LIC (i.e., countries that have access only to the GRA). The primary difference between conditions of access to Fund resources for a blend country and a non-LIC is that the former can obtain a portion of its Fund financing (currently one-third, subject to a hard cap on PRGT access) on better financial terms.

21. Areas where reforms to blending policy may be warranted include:

- Simplified rules for determining blend status—in particular, eliminating the current practice of converting blend countries that lose prospective market access back to non-blend status.
- Reconsider the blending mix, including the level of the hard cap on access to PRGT resources, which ranges between 75 and 120 percent of quota depending on initial Fund credit outstanding.

22. Staff sees merit in hardening the blending rules in relation to market access (preserving concessional resources for poorer countries), looking again at the income threshold that triggers blending (to avoid a premature push into blend status), and possibly modifying the hard cap on access to PRGT resources to ensure a simple 1:2 formula for the PRGT-GRA financing mix (which would add slightly to the need for concessional resources).

23. A more radical reform would be to allow all blend countries to obtain their funding from the PRGT, but at higher financing costs than non-blend countries. They would then be able to rely on the PRGT to meet their funding needs (at least at normal levels of access), providing them with the extra flexibility of using only the ECF in tackling protracted BoP problems over time. The interest rate could be set at a level linked to the SDR rate—say two-thirds of the SDR rate plus 50 basis points (17 bps below the current interest rate on blended support), perhaps with a cap to protect borrowers from a return to high interest rates. Benefits to the blend country could include i) a hard cap on the interest rate at a modest level and ii) avoidance of GRA interest rate surcharges, consistent with the need to tackle protracted BoP needs over time. The PRGT would receive income

¹⁴ Prior to the 2018-19 Review of Facilities for LICs, all countries at high risk of debt distress were exempted from the requirement to blend; now, those that have an income per capita above the IDA operational cutoff and are deemed to have both past and prospective market access are required to blend.

on credit extended. The cost of such a move would be reflected in foregone interest income of the GRA.¹⁵

D. Reassess Fund Lending Instruments for FCS¹⁶

24. IMF financial support for FCS was last considered in the context of the 2018/2019 LIC Facilities Review, which took up the two main recommendations of the IEO (2018) in regard to Fund financing for FCS.¹⁷ These were to: i) increase the limits on access to emergency financing that could be provided to FCS through the RCF and ii) develop a shorter-term UCT arrangement (say, one year) within the PRGT as a potential bridge to an eventual ECF (given that the only UCT option available to LICs facing protracted BoP needs was an ECF with minimum length of 3 years). The first of these recommendations was implemented in 2019. As to the case for a shorter UCT arrangement, the judgment was made at the time that the ECF instrument (in its minimum 3-year format) provided sufficient flexibility to deliver what would de facto be equivalent to a series of one-year arrangements.¹⁸ *The latter issue warrants re-examination as part of the Fund's wider workstream on strengthening its engagement in FCS.*

SUPPORTING PROGRAMS TO FINANCE STRONG RECOVERY AND DEVELOPMENT EFFORTS

The Starting Point:

25. Access levels in Fund programs are determined by a well-established list of factors—BoP need, strength of program, capacity to repay the Fund (including debt sustainability), and the country's record in using Fund credit in the past. In principle, these are the drivers of access levels in all programs, whether financed by the GRA or the PRGT.

26. BoP need is affected both by the features of the macroeconomic program being supported and the available supply of external financing from sources other than the Fund:

- More fiscal contraction/expansion → lower/higher external financing needs → smaller/larger BoP need to be filled by the Fund.

¹⁵ As discussed in the companion paper, bringing blend countries fully into the PRGT would substantially increase the level of PRGT credit outstanding and correspondingly reduce the reserve coverage ratio: this would need to be addressed as part of a comprehensive resolution of PRGT finances.

¹⁶ This note focuses on possible reforms of the Fund's financing facilities for LICs: the issue of Fund support for FCS that are not PRGT-eligible (i.e., can access only the GRA) is outside the scope of the paper.

¹⁷ The IEO saw merit in having the Fund provide support via grant-like instruments, but deemed it unlikely that the Fund's shareholders would provide the Fund with grant resources to support FCS—a point returned to below.

¹⁸ A decisive factor in influencing this judgment was the view that a shorter-term ECF would have required a more fundamental change in the structure of the LIC facilities architecture and support from all PRGT contributors. A number of fundamental design features of the PRGT are being reassessed in the current review.

- Residual financing need depends on the amounts of external financing being provided from other sources—including debt operations, private sector flows, and official bilateral and multilateral sector support. More of any one of these implies a smaller need to be met by the Fund.

27. The Executive Board has sought to promote the catalytic nature of IMF lending and contain the Fund’s burden-sharing with other official financing sources. Fund lending is catalytic when it leads both private investors and official sector creditors to provide more funding: in LICs, the catalytic role of Fund lending operates primarily through its impact on official sector support, leading to higher resource flows from multilateral institutions and the bilateral official sector. Burden-sharing usually refers to the share of the Fund in providing “exceptional financing” as compared with other sources, including the MDBs, bilateral donors and their development finance institutions, and debt relief.¹⁹ A strong catalytic effect implies more modest burden-sharing by the Fund, and vice versa. While it is difficult to construct comparable numbers across programs, it has been suggested that the Fund typically contributes about 25-30 percent of the “exceptional financing” provided by the official sector as a whole.

The Current Conjuncture:

28. As noted above, staff analysis points to very large external financing needs for LICs during 2021-25, reflecting the support needed to i) manage/recover from the pandemic and ii) support economic development and resume the gradual convergence of per capita income levels in LICs towards those in higher income economies. Some of these resources are expected to come via private sector investment (as has occurred, for example, in telecoms); the preponderance of these resources will likely be intermediated through the public sector, as the state seeks to recover from the COVID shock to non-health spending and to finance expansion of public spending on priority investments and strategic recurrent spending (including health and education).²⁰

29. The Fund can play an important role in supporting resource flows to LICs to promote post-pandemic recovery and advance important development efforts, but this is likely to involve a significantly higher level of Fund lending to LICs than has been the case in recent years. Aid budgets of many bilateral development partners are coming under pressure, while any resumed search for yield by private investors is likely to bypass the large number of LICs that have not had significant market access (or else obtain funding only at very high costs). Consequently, the burden of providing the requisite financing will likely fall on multilateral lenders, including the Fund. Burden-sharing *relative* to other IFIs may not change significantly if plans to bolster the financing capacity of the MDBs are implemented, but the share of Fund lending in total external financing (including bilateral official and private sector flows) can be expected to rise.

¹⁹ Definitions of “exceptional financing” vary across programs and, as a corollary, so too does the precise specification of “burden-sharing” among official creditors.

²⁰ See *2021 LIC Report* for a full analysis of financing needs.

30. A decision to significantly increase the scale of Fund program-based lending to LICs during the post-pandemic period will place enhanced importance on the quality of Fund program design,²¹ the effective use of budgetary resources, the sequencing of types of support, and the assessment of debt sustainability and capacity to repay the Fund.^{22, 23}

- Providing counter-cyclical support to help LICs avoid/reverse spending cuts resulting from weaker fiscal revenues and to support COVID-related interventions is familiar terrain for Fund programs—although the likely large scale of support being provided argues for stronger programs that achieve significant reform objectives.
- Supporting economic programs that entail a large scaling-up of debt-financed public spending to tackle development challenges moves into somewhat different terrain, with program success resting on the quality of investment and its capacity to yield significant economic returns. Forming a view on prospects for success will require that Fund staff examine expenditure plans in some detail and track key sub-categories of spending, given that a sound composition of public expenditure would be critical to program success.²⁴ Intensified engagement on expenditure composition issues would require both additional staff resources,²⁵ including for capacity development, and effective use of collaboration with development partners and national experts.
- Ensuring that new investment projects yield adequate rates of return requires strong public investment management capacity: FAD research has made clear that such capacity—often synthesized in PIMA scores—is integral to reaping the benefits of new projects. Assessment of investment projects in LICs with low PIMA scores will be important to program success: Fund staff does not have expertise in these areas and will need to rely on the expertise of others to form a view on the quality of key projects and their likely impact on economic growth.
- Where state capacity is weak in key areas—such as public investment and financial management capacity and revenue collection—plans to move from COVID recovery outlays to scaling up priority development activities may need to be preceded by a program to build institutional capacity to use added funding efficiently and collect the added tax revenues needed to fund new activities over time and finance debt service. Hence, sound sequencing of Fund support may well involve initial emphasis on capacity development, with full scaling-up coming only later.

²¹ Formal conditionality will need to remain parsimonious but tightly prioritized on essential reforms.

²² The Fund scaled up its support to LICs dramatically during 2020, with new lending amounting to some SDR 9.3 billion: how this was achieved is explored in Box 3. The Fund's lending strategy, looking ahead, is to return to providing the preponderance of its financial assistance through UCT policies.

²³ Policies in such areas as domestic revenue mobilization and wider public financial and debt management will, of course, continue to be integral to designing strong growth-friendly medium-term economic programs.

²⁴ The logic for tracking expenditure sub-categories follows from the wider objective of scaling-up spending to support development objectives: additional outlays need to be targeted at areas where high returns can be expected.

²⁵ Many LIC country teams are under-resourced to meet current operational demands: greater focus on expenditure composition, even in collaboration with other institutions, will require staff with the requisite expertise.

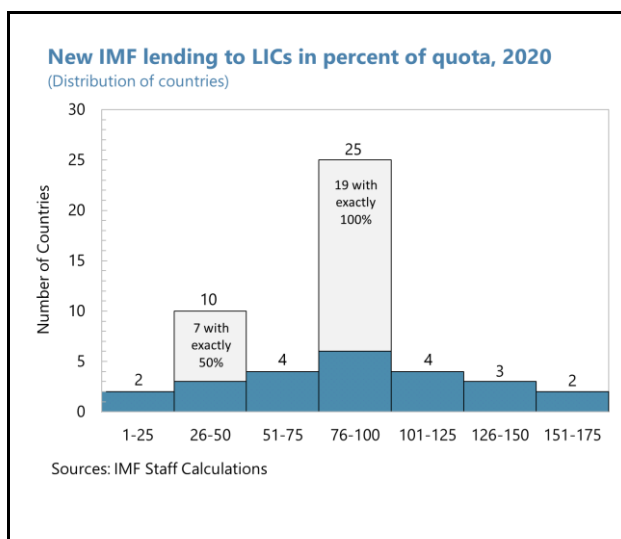
Box 3. IMF Lending to LICs in 2020

- The IMF lent SDR 9.34 billion to LICs in 2020.** This is almost 9 times as large as the average annual lending to LICs during 2015-19 (SDR 1 billion).
 - SDR 7.8 billion was provided through emergency financing (EF) instruments and SDR 1.5 billion through UCT-quality arrangements.
 - SDR 6.8 billion was sourced from the PRGT, with SDR 2.5 billion from the GRA.
 - 50 LICs received financing in 2020: 30 through EF, 17 through both EF and UCT arrangements (2 new/15 pre-2020), and 3 only through UCT arrangements (1 new/2 pre-2020).
- 19 PRGT countries received no financing in 2020.** Most were not traditional users of Fund’s financing: 12 had zero Fund credit outstanding at end-2020, indicating no lending for at least a decade.
- The distribution of **new lending as a share of quota** across countries is shown below.

Total	9.34
Emergency Financing	7.80
RCF	5.69
RFI	2.11
UCT	1.54
PRGT	1.13
GRA	0.40
<i>memo</i>	
PRGT loans	6.83
GRA loans	2.51

1/ These figures include disbursement of SDR 134 million to Ethiopia that was approved in December 2019 but disbursed in January 2020.

PRGT-Eligible Countries	69
Countries borrowing from the Fund in 2020	50
Countries accessing only EF	30
Countries accessing EF and UCT	17
Countries accessing only UCT	3



- With some 70 percent of non-blend LICs at high risk of/in debt distress, programs will need to pay close attention to the impact of debt-financed fiscal scaling-up on the sustainability of public debt over time. With high existing debt levels, the threat to debt sustainability may pose a binding constraint on investment plans. When debt sustainability is at risk, national authorities may need to explore the scope for debt operations, through mechanisms like the Common Framework, if fiscal space is to be created.
- Fund financing support can be provided only if staff assesses that the country has the capacity to repay these loans. But assessing capacity to repay in non-blend LICs involves different issues from those faced in analysis of GRA countries.
 - As noted previously, Fund lending to LICs is not a one-off event: where there is a good track record of use, Fund lending can be repeated over time to help resolve a protracted BoP problem.
 - PRGT credit, at zero (or near-zero) interest rates, is benign relative to most other forms of debt and does not contribute to adverse debt dynamics.
 - That said, while extended support can be envisaged to support resolution of deep-rooted BoP programs, capacity to repay the Fund rests on credible prospects of sustained economic growth over the longer term.²⁶
- An issue related to capacity to repay is the impact of higher levels of Fund lending on the composition of external debt. PRGT lending that is fully additional to external debt boosts the debt burden, even where net repayment is elongated; PRGT lending that replaces commercial debt serves to reduce the burden of interest payments. At the same time, changes along these lines imply that super-senior (non-restructurable) debt increases as a share of debt, complicating debt workouts should solvency difficulties emerge, and putting Fund resources at risk.

31. It is important to note that this recovery/scaling-up phase, involving high levels of net Fund financing, would be temporary in nature, as financing for public investment shifts to reliance on development finance institutions and private sector investment.²⁷ New Fund lending would likely remain elevated for several years, if only to smoothen the repayment burden over a longer period of time, but net financing levels would be expected to shrink and turn negative.

32. To conclude, the Fund can support LIC country programs in situations where BoP needs result from the strong fiscal support that is needed to help LICs manage/recover from COVID and to boost development prospects. Fund lending would likely be at significantly higher levels than were typical prior to 2020, as would the Fund's share of new external financing. No formal changes in policy would be needed to implement this approach, although higher PRGT access limits would be needed if non-blend LICs are not to be required to access the GRA.

²⁶ Further staff analytical work in fine-tuning the assessment of capacity to repay in LICs is warranted.

²⁷ See Box 4 for discussion of the links between access levels and aggregate Fund lending commitments.

33. The risks of significant scaling-up of public spending (beyond COVID recovery needs) in countries with weak state capacity are sizable; high quality of Fund program design, adequate resourcing of country teams, and close collaboration with other institutions will be needed to tilt the odds in favor of success. Sensible sequencing to underpin rising public investment and recurrent priority expenditure may involve initial emphasis on capacity development to build the necessary institutions before significant amounts of resources are deployed. Debt burdens already seriously constrain room for maneuver in the majority of non-blend LICs and may need to be tackled at the outset in several cases.

Box 4. Scaling Up IMF Lending to LICs

What would a significant scaling-up of Fund support for LICs imply for levels of lending?

- The companion paper projects Fund lending to LICs under unchanged policies (S0) and two illustrative reform scenarios—one with an across-the-board increase in access limits and norms (S1), and one with larger programs to accommodate higher fiscal spending and associated BoP needs, without PRGT-specific access limits (S2).

Policy Scenarios	New Commitments (SDR bln)			Total US\$ bln
	PRGT	GRA	Total	
I. Current Policies (S0) ¹	15.1	11.1	26.2	37.5
II. Higher Access Limits (S1) ²	23.5	12.7	36.1	51.6
III. Larger Programs (S2) ³	29.2	14.6	43.8	62.6

Sources: IMF staff calculations.

¹ NAAL / NCAL = 100 / 300 percent of quota, with hard cap of 400 percent of quota.

² NAAL / NCAL = 145 / 435 percent of quota, with hard cap of 535 percent of quota.

³ Access is subject to the policy safeguards for high levels of combined access to GRA and PRGT resources.

- The average size of multiyear arrangements for non-blenders increases from 130 percent of quota under current policies to 320 percent of quota for scaled up programs under S2. *This translates into higher Fund lending commitments of some SDR 18 billion (with SDR 14 billion from the PRGT).*
- Average access levels of 130 percent of quota would entail larger programs than observed during 2015–19, when average access in non-blend PRGT arrangements was 108 percent of quota. Access levels of 320 percent of quota would represent a very large scaling-up from pre-crisis levels—but not necessarily an unrealistic level of access given staff’s assessment of LIC financing needs. Fund lending at these levels would clearly require significant safeguards for Fund resources, with the key protection being the quality of economic programs and state capacity to implement them.

It is informative to contrast potential Fund lending levels with the scale of the financing needs cited in the *2021 LIC Report*. These needs are estimated to be on the order of US\$200 billion to finance COVID recovery while maintaining external buffers, and a further US\$250 billion to support development outlays and faster income convergence. The discussion here suggests that, with programs with average access of 320 percent of quota over the 2021–25 period for all plausible PRGT borrowers, the Fund would be providing financing to LICs on the order of US\$63 billion, an annualized level of lending more than six times the size of pre-crisis lending. In practice, it is likely that several countries will seek to pursue their objectives and meet financing needs without relying on Fund support, implying that Fund lending levels would be commensurately reduced.

USE OF TRUST FUNDS TO SUPPORT IMF LENDING TO LICs

34. We examine here how trust funds might be used to provide financing to support Fund engagement with LICs. As evidenced by the PRGT itself, trust funds have the important operational advantage that they can be used for the benefit of a well-defined sub-group of beneficiaries—in contrast with the Fund’s GRA facilities, which are available under the same conditions to the entire Fund membership. But they also face a key challenge—raising the required funding to finance the provision of loans or grants.

35. We distinguish here between two types of trusts: those that use borrowed funds to on-lend resources to beneficiaries (such as the PRGT itself) and those that provide grant resources to beneficiaries.

A. Loan-Based Models

36. The PRGT provides loans to eligible borrowers, raising these loan resources by borrowing them from Fund members. The funding structure of the PRGT is central to its capacity to borrow funds at very low interest rates to on-lend to beneficiaries. The combination of i) a reserve account, ii) established preferred creditor status, and iii) a proven mechanism for using the funding raised effectively—the PRGT’s lending facilities—operate to protect lenders from credit risk, while the encashment feature of the trust—the ability to withdraw loan resources on demand—is also an important feature for many lenders.

37. The Fund could establish trust funds for other purposes—to provide low-cost financing for other purposes/groups of beneficiaries consistent with the Fund’s mandate of helping countries resolve BOP problems—but indications are that it would require a financing structure that shares many of the key features of the PRGT if it is to attract loan resources on attractive terms. In particular, grant resources sufficient to ensure an adequately endowed reserve account combined with a trusted mechanism for lending resources in a manner that meets the trust fund’s objectives are likely to be critical to the viability of such a fund.

38. What kind of trust funds might warrant Fund sponsorship and attract donor support that would be additional to, as distinct from replacing, the donor support already needed to rebuild the PRGT? Trust funds targeted at supporting LICs as a group are not required: the PRGT meets that need, or could likely be modified to meet the specific objectives.²⁸ Trust funds targeted at, say, supporting lending to fragile and/or conflict-affected states (FCS) or small developing states (SDS) that are not PRGT-eligible might meet these conditions. Recent discussions on the design of a trust fund to support SDS highlighted the need for a strong financial structure that limits credit risk for would-be lenders and for a lending model that supports specific objectives that cannot be met through established lending facilities. Would-be donors noted that the case for a trust fund would

²⁸ Mechanisms to provide benefits to sub-groups of LICs already exist in the PRGT – for example, the distinct lending conditions facing blender and non-blenders, and the availability of EA only to the poorest LICs.

need to be convincing to warrant allocation of scarce grant resources away from bolstering the finances of the PRGT.

39. There may be cases where well-designed trust funds to on-lend borrowed resources can attract the requisite donor support, but significant work will be needed to design trust objectives, targeted beneficiaries, and lending modalities in a manner that elicits support.

B. Grant-Based Models

40. We consider a few possible grant-based models.

41. Option A: A trust fund to provide grants to eligible beneficiary countries alongside IMF programs. The grants could be untargeted or, more likely, targeted to support specific public spending priorities (e.g., digitalization, key public goods). This would allow the Fund to deliver financial assistance targeted for specific purposes alongside its lending, while de facto increasing the concessionality of Fund operations.

42. The general case for creating a fund along these lines is not obvious. Financing the fund on a sustained basis would require a regular call on donor aid budgets to provide grant resources that they could also use to finance bilateral aid or aid delivered by multilateral organizations. It is unclear why the Fund would have advantages over these alternative aid vehicles (or even have basic competence) in delivering targeted budget support, whether through government systems or stand-alone projects.

43. There is one important area of support for LICs where the Fund is recognized to have a strong advantage over other agencies and institutions: the delivery of support for domestic capacity development in areas where the Fund has specialist expertise. This advantage (and the vital importance of CD in key economic functions in many LICs) ensures that the Fund indeed obtains significant donor grant support for CD via its trust funds.

44. Option B: A trust fund to provide grants alongside IMF programs, linked to reaching key reform objectives (e.g., completion of a Single Treasury Account; successful implementation of key tax reforms). A grant scheme along these lines has some similarities with a WB Performance for Results operation, although i) the reform would need to be linkable to addressing protracted BoP needs and ii) the grant payment would be alongside a Fund program, rather than a standalone operation. As with Option A above, this would also entail a regular call on bilateral donors to provide the needed grant resources.

45. A grant of sufficient scale would provide strong incentives (on the recipient side) and focus (on the Fund side) to deliver strategic reforms that are at the core of a Fund program. However, aside from the challenges of raising financing for such grants, the question arises as to why grant incentives are needed to enhance prospects that Fund programs will deliver on key objectives. This would presumably be the case only if current use of policy commitments and conditionality is insufficient, due either to poor program design or to overly accommodative responses of the Fund to

implementation slippages. Tackling these problems directly would presumably be the first best approach, supplemented by enhanced attention to ensuring coordinated delivery of the requisite technical assistance.²⁹

46. Option C: A trust fund to provide grant finance when Fund lending is either not feasible or not desirable. Circumstances of this kind are most likely to be observed in FCS, where the accumulation of arrears to international financial institutions or other debt sustainability concerns preclude or argue against Fund lending. Current practice is to use staff-monitored programs (SMPs) as an instrument to advise on economic policies and signal to donors that progress is being made towards a UCT-quality arrangement. Provision of grants, linked to implementation of SMPs, could provide important financial support to governments operating in situations of little, if any, policy space, linked to attainment of core objectives of the Fund's engagement strategy.³⁰

47. For such a trust fund to be sustainable over time, it would need to obtain regular replenishments from donors over time to maintain its grant delivery capacity.³¹ This in turn would require an assessment by the donor community that providing the Fund with grant resources to support FCS is superior to alternative mechanisms, both bilateral and multilateral, for delivering such support. The IEO (2018), in its assessment of Fund engagement with FCS, pointed to the merits of the Fund making use of some grant-like financing in FCS, but also cautioned that *"it is not clear that adequate resources for this purpose could be mobilized from the membership"*. It would be desirable to revisit this question as part of the Fund's current workstream to improve the effectiveness of its engagement in FCS.

DOING BUSINESS DIFFERENTLY—REVIVING THE MEDIUM-TERM APPROACH UNDERPINNING THE ECF

48. The PRGT has distinctive design features that differentiate lending under stand-alone ECF arrangements from conventional GRA programs. One key difference is that support under an ECF arrangement can be based on providing financing to support LICs over a time horizon well beyond that of a single arrangement to address protracted BoP needs that are rooted in basic development challenges. This creates space for an alternative engagement model with (non-blend) LICs—one in which a program supported by an ECF is embedded within a medium-term strategy for supporting the country as it tackles the economic reform challenges needed to overcome obstacles to inclusive growth and a sound BoP position. An ECF-supported program can include post-program financing gaps and assume a successor Fund program to take forward the medium-term policy

²⁹ Use of floating tranches can be used to promote attainment of key program objectives in some circumstances.

³⁰ For example, the World Bank can provide pre-arrears clearance grants to IDA-eligible countries and, more broadly, can use grants, financed through IDA, to support countries facing severe indebtedness problems.

³¹ An endowment model, as used to finance PRGT interest subsidies, could deliver support without replenishments—but, absent a very large initial endowment, this would likely support only very modest levels of grants over time.

agenda. This engagement model is not available under the GRA, where BoP problems are expected to be resolved during a single program.

49. Fund engagement with LICs during the early years of the PRGT was formally grounded in the HIPC process and the apparatus of Poverty Reduction Strategy Papers (PRSPs), PRSP updates, and structured Bank-Fund collaboration. While the PRSP focused attention on medium-term policy objectives, the linkage between these aspirational documents and the policy framework/reform agenda supported under an ECF was, at best, quite loose: with the HIPC process completed, Fund staff (and Bank counterparts) viewed the PRSP process as a high-cost exercise (in terms of work inputs) that yielded little in terms of strategic focus or prioritization of reforms. Operational reliance on PRSPs was eventually abandoned by the Bank in 2014.³² With the demise of PRSPs, the Fund has relied on a government statement of its Poverty Reduction and Growth Strategy (PRGS) to provide a “PRG” basis to anchor PRGT-supported arrangements,³³ but the quality and operational value of these documents has been mixed.

50. Over time, the view that engagement with LICs should be grounded in a medium-term perspective has largely disappeared from view.³⁴ Internal policy notes and Board staff reports do not usually ground the approach being taken in a proposed arrangement within a wider assessment of development priorities and a medium-term strategy for tackling them. The flexibility provided by the ECF to plan for repeated engagement is frequently unused, with the facility becoming little more than an EFF with more attractive financing terms.

51. IMF engagement with LICs facing long-term development challenges could benefit significantly from shifting to an explicitly medium-to-longer term strategy for providing support. The key anchor would be a clear diagnostic, identifying reform priorities in areas in which the Fund has lead responsibility, and a strategy (including CD support) for addressing them. The processes/practices needed to ensure that engagement is grounded in a medium-to-long term perspective (8-10 years) require careful thought and experimentation: key factors to be taken into account include length of leadership assignments, the intense staff effort often needed simply to keep a program “on-the-road”, and the strong homogenizing pressures within the Fund to produce standardized documents and analysis for countries. But perhaps the key design challenge will be to ensure that the approach adopted does not gradually (or speedily) evolve into a box-ticking exercise that generates a lot of work but little insight or useful guidance.

52. The argument for grounding engagement with LICs within a medium-term time horizon is not an argument for promoting use of longer Fund arrangements over repeated use of shorter-term arrangements, as allowed for with the ECF. While medium-term strategic

³² The Bank introduced Systematic Country Diagnostics (SCDs) and medium-term Country Partnership Frameworks (CPFs) to anchor its country engagement strategy.

³³ To limit the burden on country officials, the PRGS can draw heavily on existing policy documents: a pre-existing government document can serve the PRGS function if appropriate.

³⁴ Individual country teams may have medium-term engagement plans, but they do not feature in wider staff debate. Medium-term frameworks that envisage post-program financing gaps and further Fund support are also uncommon.

priorities may be clear (e.g., strengthening PFM, developing a strong tax agency and central bank), the tactics for achieving them will evolve over time: elaboration of quantitative economic programs beyond 3 years (or even less) may have little planning value in situations where state capacity is weak and shocks, both domestic and external, are common. Fund programs have significant flexibility that allows recalibration of plans in mid-stream, but there is a strong bias (on both the staff and authorities' sides) to keeping programs "alive" even when much has already gone wrong. Shorter programs, allowing frequent re-setting of goals and targets, may be a more effective strategy to follow than the winding and often elusive path of "bringing programs back on track".

53. Adopting a more medium-term approach to engagement with LICs would be very much in line with the Fund's evolving approach to FCS. This is not surprising: tackling the deep-rooted development challenges that underpin protracted BoP needs in the poorest countries and overcoming the challenges posed by fragility and conflict have much in common—including the need to recognize that Fund engagement will be ongoing for many years. In both types of situations, the Fund is in it for the long haul.

CONCLUDING REMARKS: PULLING THE PIECES TOGETHER

54. This paper has examined various options to be considered in exploring how the Fund's provision of financing for LICs might be strengthened. We conclude the discussion by sketching an illustrative package of reforms drawing on the elements discussed above, aimed at showing how the various pieces might be pulled together, assuming that the funding needed can be secured.

1. *Set normal access limits for the PRGT at 145/435, with any further access to PRGT resources subject to meeting the PRGT EA criteria, without hard caps on access.*
2. *Retain the current grace periods and maturities associated with PGRT lending: consider the option of longer maturities in the context of FCS-specific instruments, see below.*
3. *Simplify the "who blends" rules, basing them on i) a robust income transition rule that seeks to ensure non-reversibility (as with PRGT graduation rules) and ii) a threshold on market access over a five year period that, once passed, becomes irreversible.*
4. *Explore allowing all PRGT-eligible members to borrow only from the PRGT, with the blend/non-blend distinction being reflected only in the interest rates charged to the two groups—with significantly harder financing terms for blenders, who are moving towards graduation.*
5. *Support strong economic programs, likely entailing Fund support at elevated levels, to help countries meet BoP needs associated with recovery from the pandemic shock. Provide significantly higher levels of assistance to help countries meet BoP needs arising from a strong push to accelerate development provided that there is high confidence that i) programs will deliver key reforms/address strategic bottlenecks and ii) scaling up public investment substantially will generate high returns.*
6. *Explore the use of trust funds (both on-lending and grant-based) to meet objectives consistent with the Fund's mandate, recognizing that establishing funds that command additional donor*

support and use resources raised effectively is challenging—and should not be pursued in areas where support would come at the expense of existing Fund operations and activities.

7. Give further attention to the special circumstances and financing needs of FCS, which may warrant differentiated treatment—whether within the framework of the PRGT or via trust funds.

8. Develop, via experimentation at the country team level, a structured medium-term approach to Fund engagement with LICs facing deep development challenges, grounded on strategies informed by a firm understanding of i) country circumstances and history and of ii) the engagement strategies of other major development partners, with whom Fund engagement would ideally be synchronized. The country engagement strategy would be a focused living document, shared across the Fund and with officials and counterparts in other development institutions in a pragmatic fashion.

55. The ambition of the package to be adopted depends crucially on the prospects for raising the resources needed to fund a larger PRGT and, possibly, targeted trust funds alongside it: the more resources available, the more expansive reform choices can be. Costing of key reforms and the financing options available fund reforms are taken up in the companion paper.

Annex I. Typology of IMF Lending Facilities

Two groups of facilities:

- GRA: Available to all members
- PRGT Available to Board-defined group of low-income countries (LICs) and small states

Contrast with the World Bank

- Close overlap between the 69 PRGT-eligible countries and the 74 IDA-eligible countries
- PRGT members borrow from the GRA because i) they are required to blend (higher-income LICs) or ii) their financing needs exceed the borrowing room available under PRGT facilities

Two types of lending:

- Arrangements (or “programs”):
 - financing in support of broad multi-year economic programs (1-5 years)
 - series of disbursements over time, following completion of scheduled reviews
 - “ex post conditionality”, including quantitative performance criteria to be met
 - “UCT-quality” policies – quality of program is judged to be appropriately ambitious
- Emergency financing:
 - For use when programs are not a realistic option given urgency or weak state capacity (*natural disasters, large external shocks, post-conflict situations*)
 - One disbursement, forward-looking policy commitments, possibly some prior actions
 - Emergency financing was used infrequently pre-COVID – average of 3 loans a year (with a spike during the Ebola pandemic)

Two types of arrangement (GRA)

- Stand-by arrangement (SBA):
 - purpose: to assist countries experiencing short-term actual or potential balance of payments problems
 - length: up to 3 years
 - loan maturity: 5 years with 3-year grace period
- Extended Fund Facility (EFF)
 - purpose: to assist countries experiencing medium-term balance of payments problems because of structural weaknesses
 - length: 3-4 years
 - loan maturity: 10 years with 4-year grace period

The PRGT has two similar (but not identical) facilities:

- Short-term Credit Facility (SCF)
- Extended Credit Facility (ECF), which (uniquely) is intended to help countries deal with protracted BoP problems (where resolution will take three years or longer)

PRGT LENDING FACILITIES AND FINANCING: STYLIZED FACTS

The status quo:

- a) Loans under the concessional facilities (ECF or RCF) carry a zero interest rate, with a grace period of 5½ years and maturity of 10 years.
- b) Loans under the concessional facilities are subject to *access limits*—caps (expressed as a % of quota), both annual and cumulative, on the amount that countries can borrow. The caps serve as a *rationing mechanism*, given that the aggregate level of concessional lending is constrained.
- c) 28 of the 69 PRGT-eligible countries can request *exceptional access* to PRGT resources—borrowing in excess of the normal limits that is itself subject to hard caps.
- d) Requests for combined access to Fund resources (PRGT+GRA) are subject to policy safeguards where they exceed the limits that trigger application of the GRA exceptional access criteria (EA). The safeguards are similar, but not identical, to the GRA EA criteria.

Financing concessional lending:

- e) **PRGT loan resources** are borrowed from willing member countries: *there is little financial cost to donors from lending to the PRGT*, which is a near-risk free loan earning interest at the SDR rate.
- f) **PRGT subsidy resources** are needed to pay the interest subsidy on PRGT loans – the difference between the zero interest rate paid by borrowers and the SDR rate paid to lenders. The subsidy per SDR lent is currently miniscule, with the market-linked SDR rate now at 11 bps.
- g) **The PRGT reserve account** contains resources to cover any losses incurred in the event of a default by PRGT borrowers: the balance in the reserve account has historically been on the order of 40 percent of the outstanding stock of loans but could fall below 20 percent in the mid-2020s.

PRGT finances:

- h) **PRGT lending operations are intended to be self-sustaining over time**—meaning that the PRGT’s reserve/subsidy resources (boosted by returns on investment, drained by interest rate subsidies) are expected to finance a constant level of lending over time (in perpetuity).
- i) **The surge in lending since March 2020 has far exceeded the annual target of SDR 1.25 billion**, implying that the resources of the PRGT will decline over time as interest subsidies

exceed returns on the amount in the trust. *But the pace at which this erosion is occurring is very slow, given the low level of market interest rates; the PRGT is no longer self-sustaining but it will not run out of subsidy resources for many years to come* (helped by “low for long”).

- j)** FIN has estimated that the amount of subsidy resources needed **to make the PRGT self-sustaining**— given i) projected lending at current access policies through 2024, ii) increases in access limits in line with LIC nominal GDP at every five-year review (from 2024 onwards), and iii) a post-pandemic annual lending level of SDR 1.65 billion—**is about SDR 2½ billion**.

Annex IIa. List of PRGT-Eligible Countries that are Eligible for PRGT EA

Country	IMF Credit Outstanding in % of Quota (end-2020)	2019 GNI per capita (US \$)	Program in Place (end-2020)	Risk of Debt Distress (end-2020)
EA-Eligible Countries (28 countries)				
Chad	298	700		High
Madagascar	224	520		Moderate
Burkina Faso	221	790		Moderate
Malawi	216	380		Moderate
Niger	215	560		Moderate
Mali	205	880	ECF	Moderate
Rwanda	178	820	PCI	Moderate
Ethiopia	174	850	ECF-EFF	High
Central African Republic	174	520	ECF	High
Sierra Leone	170	500	ECF	High
Togo	169	690		Moderate
Guinea	169	950		Moderate
Mozambique	162	480		In debt distress
Somalia	158	-	ECF-EFF	In debt distress
Nepal	120	1090		Low
Uganda	100	780		Low
Afghanistan	87	540	ECF	High
Tajikistan	84	1030		High
Liberia	79	580	ECF	Moderate
Haiti	78	790		High
Guinea-Bissau	72	820		Moderate
Gambia, The	68	740	ECF	High
Congo, Dem. Rep.	50	520		Moderate
Sudan	32	590		In debt distress
South Sudan	15	-		High
Burundi	12	280		High
Yemen	11	940		High
Eritrea	0	-		In debt distress

Sources: IMF FIN; World Bank, World Development Indicators.

Annex IIb. List of PRGT-Eligible Countries that are not Eligible for PRGT EA

Country	IMF Credit Outstanding in % of Quota (end-2020)	2019 GNI per capita (US \$)	Program in Place (end-2020)	Risk of Debt Distress (end-2020)
Presumed Blenders: Countries above the IDA operational cutoff with L or M risk of debt distress (17 countries) or above 80 percent of the cutoff with market access (1 country) (18 countries)				
Côte d'Ivoire	278	2290		Moderate
Benin	268	1250		Moderate
Moldova	201	3930		Low
Kyrgyz Republic	147	1240		Moderate
Honduras	135	2390	SBA-SCF	Low
Comoros	116	1420		Moderate
Solomon Islands	104	2050		Moderate
Senegal	100	1450	PCI	Moderate
Bangladesh	89	1940		Low
Lesotho	72	1360		Moderate
Nicaragua	51	1910		Moderate
Uzbekistan	50	1800		Low
Myanmar	50	1390		Low
Vanuatu	32	3170		Moderate
Bhutan	0	2970		Moderate
Timor-Leste	0	1890		Low
Cambodia	0	1480		Low
Tanzania	0	1080		Low
Potential Presumed Blenders if assessed as having prospective market access (8 countries)				
Cameroon	255	1500		High
Ghana	198	2220		High
Dominica	148	8090		High
Kenya	130	1750		High
Maldives	100	9650		High
Cabo Verde	100	3630	PCI	High
Papua New Guinea	100	2780		High
Lao PDR	0	2570		High
Others not eligible for EA due to GNI per capita above the IDA cutoff (15 countries)				
Mauritania	181	1660	ECF	High
Grenada	181	9980		In debt distress
São Tomé and Príncipe	125	1960	ECF	In debt distress
St. Vincent and the Grenadines	118	7460		High
Samoa	118	4180		High
Djibouti	110	3540		High
St. Lucia	102	11020		High
Congo, Rep.	20	1750	ECF	In debt distress
Zambia	0.2	1450		In debt distress
Tuvalu	0	5620		High
Marshall Islands	0	4860		High
Tonga	0	4300		High
Micronesia	0	3400		High
Kiribati	0	3350		High
Zimbabwe	0	1390		In debt distress

Sources: IMF FIN; World Bank, World Development Indicators.
The IDA operational cutoff is defined as GNI per capita at \$1,185 in fiscal year 2021.