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MEETING**

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July 12, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Fund Concessional Financial Support for Low-Income Countries—
Responding to the Pandemic—Additional Background Information**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Wednesday, July 14, 2021**

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Additional Information: The attached supplement has been prepared in response to queries from Executive Directors.

Questions: Mr. McGrew, SPR (ext. 30475)
Ms. Singh, SPR (ext. 38891)
Mr. Tokuoka, SPR (ext. 36844)



July 12, 2021

FUND CONCESSIONAL FINANCIAL SUPPORT FOR LOW INCOME COUNTRIES—RESPONDING TO THE PANDEMIC— ADDITIONAL BACKGROUND INFORMATION

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Prepared by the Strategy, Policy, and Review Department and the Finance Department.

This supplement contains additional information that may be useful to Directors in considering the staff proposals outlined in SM/21/120. One note examines how the additional borrowing space made available to countries by the temporary increases in PRGT access limits approved in July 2020 and March 2021 has been used. A second note compares the recent and expected evolution of IMF lending to low income countries (LICs) during 2017-22 with staff estimates and projections of financial support to LICs from other international financial institutions over the same period.

I. Use of Additional Borrowing Space Following Temporary Increases in PRGT Access Limits

This note examines the use of the additional borrowing space provided by the temporary increases in PRGT access limits introduced in July 2020 and March 2021. To recap:

- The normal annual/cumulative access limits under the PRGT were set at 100/300 percent of quota in May 2019.
- On July 13, 2020, the normal annual access limit (NAAL) to PRGT resources was increased on a temporary basis to 150 percent of quota, with a view to providing additional borrowing space for countries that had sought emergency financing since the onset of the pandemic.
- On March 22, 2021, the NAAL was increased further to 245 percent of quota while the normal cumulative access limit (NCAL) was increased to 435 percent of quota, with both increases initially set to expire at end-June 2021, later extended to end-July 2021.

From July 13, 2020 through end-June 2021, the Executive Board approved six requests for new PRGT arrangements, three requests for augmentation of access under existing PRGT arrangements, and thirteen requests for support under the Rapid Credit Facility (RCF). Details on the access levels approved for these 22 requests are outlined in Table 1.

- **Maximum annual access exceeded the pre-pandemic NAAL of 100 percent of quota in four of the six requests for new arrangements,** albeit by no more than 20 percent of quota in three of the four cases (Afghanistan, Madagascar and Kenya).¹ In the fourth case (Sudan), the large initial disbursement was linked to the clearance of arrears to the Fund in the context of the HIPC and beyond HIPC/MDRI debt relief.
- **Maximum annual access exceeded 100 percent of quota in one of the three cases involving an augmentation of access under an existing arrangement.** An augmentation of the ECF arrangement with Mauritania in September 2020, in an amount equivalent to 15.7 percent of quota, brought annual access under the PRGT to 115.7 percent of quota. Mauritania's access to the RCF in April 2020 had been limited to 74.3 percent of quota, given the NAAL of 100 percent of quota in place at the time.
- **Maximum annual access exceeded 100 percent of quota as a result of RCF requests in five of the thirteen cases** (Chad, Madagascar, Malawi, Cameroon and Benin), by a maximum of 23 percent of quota: all five countries had pre-pandemic UCT arrangements.

¹ In each of the three cases, annual access under the program exceeded 100 percent because of prior drawings under the RCF.

In sum, use of the additional borrowing space created by the temporary increase in PRGT access limits has been modest in scale and aligned with the objectives of this policy change:²

(i) three countries that had received emergency financing in the early stages of the pandemic were able to move ahead with new arrangements with somewhat higher levels of initial access; and (ii) six countries that had borrowed under pre-pandemic arrangements were provided with additional access to address the pandemic, five via the RCF and one via an augmentation. An unplanned benefit was the ability to provide Sudan with a large disbursement of concessional resources to facilitate the arrears clearance operation.

Country	Arrangement Type	Approval Date	Total Amount Approved under PRGT ^{1/} (percent of quota)	Cumulative access under PRGT ^{2/} (percent of quota)	Maximum annual access under PRGT (percent of quota)
Program requests (6)					
Afghanistan	ECF	11/6/2020	80	139	107
Madagascar	ECF	3/29/2021	90	281	120
Kenya	ECF-EFF	4/2/2021	75	175	114
Senegal	SBA-SCF	6/7/2021	47	80	26
Uganda	ECF	6/28/2021	200	300	75
Sudan	ECF	6/28/2021	275	275	167
Augmentation requests (3)					
São Tomé and Príncipe	ECF	7/27/2020	100	185	97
Mauritania	ECF	9/2/2020	106	189	116
Gambia, The	ECF	1/15/2021	88	137	81
RCF requests with program in place (1)					
Sierra Leone	RCF (concurrent with ECF)	3/15/2021	17	207	82
RCF requests without program in place (12)					
Chad	RCF	7/22/2020	35	295	115
Lesotho	RFI-RCF	7/29/2020	17	32	17
Madagascar	RCF	7/30/2020	50	281	113
Malawi	RCF	10/2/2020	52	211	123
Cameroon	RCF	10/21/2020	40	255	120
South Sudan	RCF	11/11/2020	15	65	15
Nicaragua	RFI-RCF	11/20/2020	17	17	17
Benin	RFI-RCF	12/21/2020	33	197	108
Myanmar	RFI-RCF	1/12/2021	17	33	33
Guinea-Bissau	RCF	1/25/2021	50	118	50
Tonga	RCF	1/25/2021	50	50	50
South Sudan	RCF	3/30/2021	50	65	65

1/ For augmentation requests, augmentations are included in total amount approved.
2/ As of end-June 2021.
Note: Countries with annual/cumulative access levels in excess of 100/300 percent of quota are marked in blue; countries with annual/cumulative access levels in excess of 150/300 percent of quota are marked in green.

² See “Temporary Modification to the Fund’s Annual Access Limits” (June 30, 2020), paragraph 3 for a discussion of these objectives.

II. IMF Financial Support for LICs in a Comparative Context, 2017-2022

This note compares the evolution of IMF lending to LICs during 2017-2022 with trends in financial support to LICs provided by other international financial institutions (IFIs), focusing on the World Bank, the African Development Bank (AfDB), and the Asian Development Bank (AsDB). Projections for 2021-22 are those of IMF staff, informed by published financial information and projections from the other institutions. Projections for the AfDB and the AsDB, in particular, may have been revised significantly from earlier documents and should be viewed as illustrative. That said, the projections show the broad trends in financial commitments from the four IFIs as a group and in the Fund's share of total commitments.

Data presented are on the financing commitments made by each institution during the relevant calendar year. Commitments can differ substantially from disbursements in any given year—both because project loans approved during the year (as with Fund arrangements) will disburse over several years into the future, and because project loans and Fund arrangements approved in previous years will be disbursing in the current year. A step increase in financing commitments made in year T will usually take some years to be fully reflected in loan disbursements, both for the MDBs and the Fund.

The normal lag between financial commitments and disbursements did not apply to Fund financial support to LICs in 2020, because the bulk of that support was provided via the Fund's emergency financing (EF) instruments. Board approval of EF requests usually lead to full disbursement of the loan amounts within a few days; also, in the early months of the pandemic, measures to accelerate the processing times of EF requests were implemented to facilitate the prompt provision of financial assistance.

Trends in financial support to LICs during 2017-2022 are illustrated in Figures A2.1 and A2.2.³ Data for World Bank financial commitments on a calendar year basis are obtained by a simple splicing of fiscal year data.⁴ The main takeaways from these estimates are:

- Fund financing commitments to LICs surged in 2020, accounting for almost one-quarter of total financing to LICs from the four IFIs, up from an annual average of 8 percent of total financing during 2017-2019.
- The annual level of Fund financing commitments is expected to ease somewhat by 2022, accounting for about 18 percent of total projected IFI financing.⁵

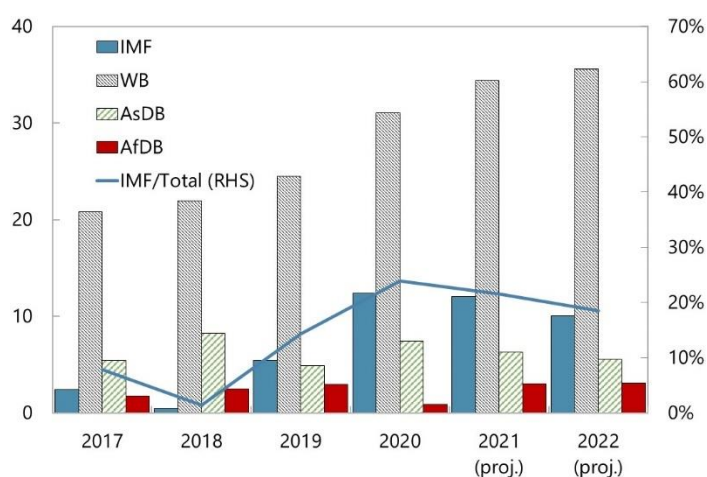
³ Projections of Fund commitments in 2021-2022 are aligned with the Baseline projections discussed in the main text; the numbers include financing provided under both the PRGT and the GRA.

⁴ The World Bank's fiscal year runs from July 1 through June 30. The calendar year estimate presented here for 2019 equals half the amount committed in FY2019 (ending in June 2019) plus half the amount committed in FY2020.

⁵ Underestimation of likely commitments by the AsDB and the AfDB in 2021-22 would imply that the Fund's share of total commitments is overstated.

- The Fund share of total IFI disbursements during 2020 was likely significantly higher than the estimated 24 percent share of IFI commitments, given the central role of fast-disbursing emergency financing in Fund support during this year. With the projected shift back to multi-year arrangements in 2021-22, the Fund share of disbursements will be lower than its share of new commitments in these years, since most of the Fund financing commitments made in 2020 were disbursed immediately.
- The combined level of financing for LICs from all four IFIs is expected to reach some \$56 billion in 2021—a very sharp increase from the levels of support provided during the pre-pandemic years. Financing is projected to fall slightly in 2022, but could be significantly higher with enhanced shareholder support for IFI concessional lending and grant finance.

Figure 1. IFIs' Support to LICs (USD billion) ^{1/ 2/ 3/}



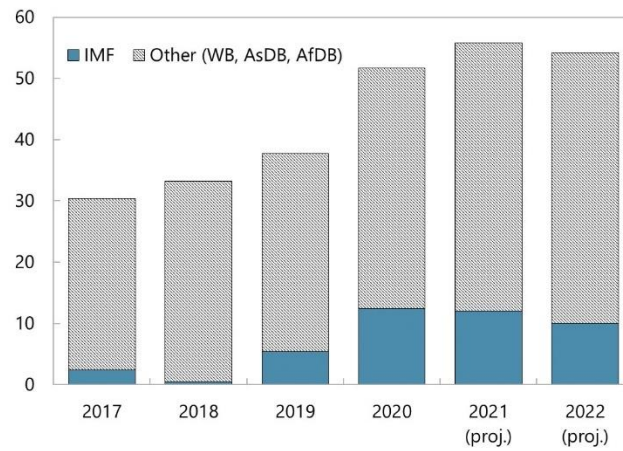
Sources: WB, ADB, AfDB, and IMF staff calculations

^{1/} Eligibility for concessional financial assistance varies across the institutions. To facilitate comparison, the specification of LICs used here is as follows: IMF—all PRGT-eligible countries; WB—all IDA-eligible countries, excluding Pakistan and Nigeria; AsDB—all countries currently eligible for concessional loans or grants, excluding Pakistan; AfDB—all countries eligible for African Development Fund (ADF) resources.

^{2/} Figures/projections are for calendar years: WB financing in S2 2022 is assumed to be 10 percent higher than in S2 2021.

^{3/} 2021-2022 figures are IMF staff projections. Projections for the IMF include PRGT and GRA commitments, and projections for the World Bank include both IDA and IBRD loan commitments.

Figure 2. IFIs' Support to LICs (USD billion) ^{1/ 2/}



Sources: WB, AsDB, AfDB, and IMF staff calculations

^{1/} For country groups, see footnote 1 in Figure 2.

^{2/} 2021-2022 figures are IMF staff projections. Projections for the IMF include PRGT and GRA commitments, and projections for the World Bank include both IDA and IBRD loan commitments.