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September 24, 2021

ENHANCING FUND FINANCIAL ENGAGEMENT IN FRAGILE AND CONFLICT-AFFECTED STATES—OPTIONS FOR DISCUSSION

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CONTEXT

1. Fragile and conflict-affected States (FCS) are a heterogeneous group of countries sharing certain common characteristics. They face different types and degrees of fragility, including conflict in some countries, and they are generally characterized by limited institutional capacity, weak governance, heightened security risks, and often unstable political environments. In many cases, these challenges are compounded by high vulnerability to macroeconomic and climate shocks, given limited policy buffers with weak reserve positions or debt sustainability risks. In addition to the heterogeneity within the group of FCS, the circumstances of individual FCS can vary markedly over time as they either manage to overcome their fragilities or suffer setbacks. Most FCS are Low Income Countries (LICs), with very few non-LICs currently identified as FCS (Annex I).¹

2. The 2018 IEO report on [The IMF and Fragile States](#) indicated that Fund impact in FCS has fallen short of what could be achieved. The IEO report acknowledged the IMF's unique and essential support for FCS, which has helped them restore macroeconomic stability, build core macroeconomic policy institutions, and catalyze donor support. This has been particularly the case in years immediately after FCS emerged from periods of violence and isolation. Notwithstanding this positive overall assessment, the evaluation found that the relatively short-term nature of the Fund's financing toolkit is not inherently well-suited to FCS circumstances (see Annex II and III for details on the financing toolkit and terms). The IEO also identified a gap in the existing lending toolkit between instruments available for rapid support (emergency financing)—which have limited conditions—and those for more sustained support (through upper credit tranche (UCT)-quality programs)—with more stringent conditionality. It further concluded that the application of conditionality appears to have differed little for the specific situations of FCS from that applied to other countries, though programs for FCS should remain appropriately ambitious.

3. Recent reviews and reforms of facilities for LICs have helped address some of the gaps in the Fund's instruments for financial engagement with FCS.²

- The [2018-19 Review of Facilities for LICs](#) increased access limits under the PRGT, extended the initial maximum duration of Extended Credit Facility (ECF) arrangements, and recommended better tailoring of program design and conditionality to the diverse circumstances of FCS. At that time, proposals to introduce a shorter-term variant of the ECF arrangement did not receive

¹ Presently, there is no official IMF FCS list, although the Fund maintains an internal FCS list comprising 42 economies, with 36 LIC FCS, 5 non-LIC FCS and one dependent territory, West Bank and Gaza (see Annex I). At the July 2021 informal Board meeting on the FCS strategy, staff proposed identifying FCS using the revised World Bank methodology, which better distinguishes among countries across the fragility and conflict spectrum. This paper uses the current list for analytical purposes, but conclusions would be similar if the World Bank list were used. Unless stated otherwise, this paper focuses on LIC FCS.

² This paper uses interchangeably "LICs" and "PRGT-eligible"; as well as "non-LICs" and "non-PRGT-eligible" countries.

sufficient support.³ However, the Board endorsed the full use of inherent flexibility under the ECF, allowing a focus on near-term objectives for members facing substantial uncertainties. In addition to the generalized one-third increase in access limits, the access limit to the regular window of the Rapid Credit Facility (RCF) was doubled to 50 percent of quota, providing more flexibility to support FCS that are not able to meet UCT standards.

- In April 2021, the Executive Board discussed how the Fund’s provision of financing for LICs might be strengthened under the PRGT, including related to longer grace periods and maturities, higher concessionality, Country Engagement Strategy (CES), trust funds, and grants.⁴ The Board, however, recognized that further attention should be given 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.
- Later, in July 2021, the Executive Board approved [policy reforms and a funding package](#) to better support LICs in responding to the COVID pandemic. The policy reforms included (i) raising the normal annual/cumulative limits on concessional lending through the PRGT, (ii) eliminating the hard limits on exceptional access to PRGT resources for the poorest LICs, (iii) simplifying the framework for blending concessional and non-concessional resources, and (iv) strengthening safeguards to address risks to debt sustainability and capacity to repay the Fund. These reforms will benefit FCS that are eligible for the PRGT (currently 36 out of 42 FCS).

4. More could potentially be done to better tailor the Fund’s flexibility for financial engagement with FCS. While access limits for LICs have recently increased, the Fund’s financial support for FCS—whose duration is medium-term—needs to be anchored in their long-term perspective. On-going work on the development and rolling-out of Country Engagement Strategies (CES) in FCS, and finding the appropriate articulation between an individual program and the CES for a given country, could help in that regard.⁵ In addition, the long-term nature of fragilities, but also the diversity of situations for a given country over time as well as for FCS as a group, underscore the need for multiple instruments to enable the Fund to support members in a diversity of situations.

5. This paper assesses the Fund’s financial engagement with FCS, identifies possible remaining gaps in the lending framework, and presents options for improvements. Informed by the findings of the 2018 IEO report, staff’s assessment of how to better align the lending framework

³ While [some Directors](#) expressed openness to a soundly-designed and ring-fenced shorter-term ECF arrangement that could facilitate engagement with fragile states in situations of elevated uncertainty, others expressed reservations about such a move that would represent a significant structural change in the architecture of LIC facilities. The arguments against the shorter-term ECF (e.g., 12-18 months) include that it could create the risk of potential overlap between the SCF and the ECF in circumstances where the delineation between short-term and protracted BoP needs is not clear cut.

⁴ See “*Review of Concessional Financing and Policies—Potential Policy Reforms*”, FO/DIS/21/44, March 23, 2021, and its companion paper “*Review of Concessional Financing and Policies—Financing Considerations*”, FO/DIS/21/45, March 23, 2021.

⁵ The CES serves as a high-level anchor for the Fund’s engagement with FCS, aiming to identify medium- to long-term reforms while better accounting for country-specific manifestations of fragility, institutional constraints, and political economy considerations. Its purpose is to inform short- to medium-term term actions in FCS settings.

for FCS with their special circumstances and policy space is guided by the on-going work to develop a new Strategy for engagement with FCS. Against this background, the assessment focuses on three main challenges for effective engagement with FCS: (i) designing robust economic programs in those countries, (ii) responding to the need for agility as country circumstances change, and (iii) ensuring appropriate financing terms. This analysis helps pinpoint gaps in the lending framework, and informs the broad reform options that are presented in this paper. The paper includes options that could help both PRGT-eligible and non-PRGT-eligible FCS.

6. Staff seeks the Executive Board’s feedback and guidance on the direction for the lending policy reform options for FCS. This paper describes the potential benefits and possible challenges associated with each reform option without going into comprehensive technical details. Incorporating Directors’ guidance, staff will prepare a more focused and detailed set of proposals for Directors’ further consideration at another informal Board discussion in December.

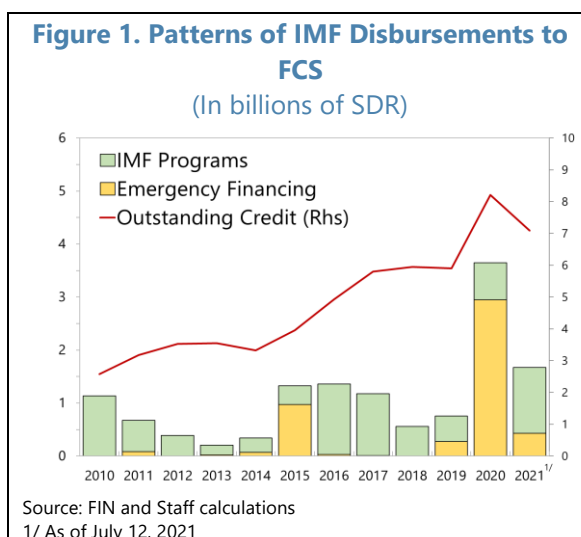
7. The remainder of the paper is organized as follows. Section II assesses the Fund’s financial engagement with FCS and identifies specific challenges with some country examples. This diagnostic informs the gap analysis in the lending framework for FCS and the proposed objectives of the lending reform (Section III), before laying out various reform options that would either keep the current lending architecture broadly unchanged (Section IV) or would entail rethinking more substantially the lending architecture (Section V) to better serve FCS (including non-PRGT LICs). Section VI concludes with issues for discussion.

ASSESSMENT OF FUND'S FINANCIAL ENGAGEMENT WITH FCS

Financial Engagement with FCS

8. The Fund’s financial engagement with FCS has been extensive over the years, and has intensified since the start of the pandemic (See Box 1 for details). In the decade pre-COVID-19, over half of FCS received financing of UCT-quality, mostly provided through the ECF arrangement available for LICs. This ratio of program engagement with FCS is markedly higher than for the rest of the membership. During this period, many FCS have had successive arrangements thereby lengthening the effective duration of financial engagement, in line with other LICs.

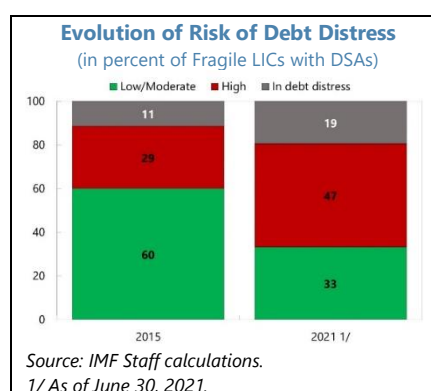
Emergency financing was also used mostly during the Ebola outbreak in 2014–2015 and following other natural disasters. Since April 2020, there has been a significant surge in emergency lending to help FCS cope with the adverse effects of the pandemic. Subsequently, many FCS have either resumed or are seeking program engagement.



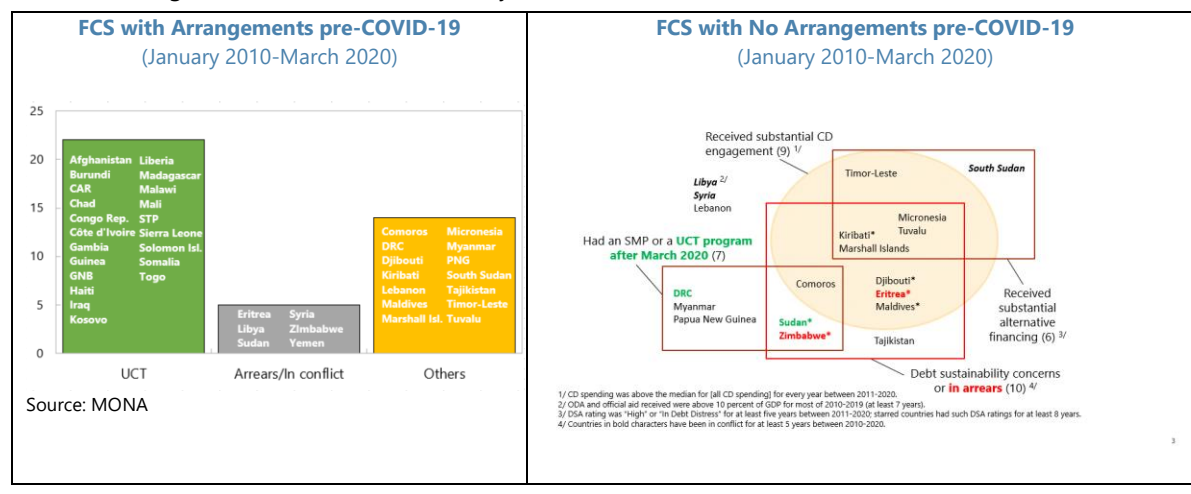
9. Various factors help explain why some FCS did not receive Fund financial support before the pandemic. These FCS are in the majority small states (such as in the Asia-Pacific region) that benefit from significant financial support from bilateral and other multilateral development partners (and thus did not have BOP needs), whereas the Fund has supported them primarily through extensive capacity development; some of them faced severe capacity constraints limiting their ability to implement a UCT-quality arrangement. In a few other cases, UCT engagement was precluded by unsustainable debt and/or arrears to the IMF or the World Bank. Fund engagement has also been constrained with some FCS where conflict and/or a breakdown in governance structures have rendered lending infeasible (e.g., Libya, Syria, Yemen).⁶

Box 1. Fund Lending to FCS

Fund lending to FCS was very extensive pre-COVID-19. In the decade between January 2010 and end March 2020, the Fund approved 47 arrangements (36 percent of all programs approved during this period) and 13 emergency financing requests (55 percent of all emergency financing) for FCS (see Annex II and III for a description of the current financial toolkit). Twenty LIC FCS (almost two thirds of the 36 LIC FCS) and two non-LIC FCS (out of the five non-LIC FCS) had an arrangement over this period. The remaining FCS that did not receive financing under arrangements pre-Covid-19 were either (i) small states that benefit from extensive capacity development from the Fund and significant financial support from bilateral and other multilateral development partners; (ii) present debt sustainability concerns and/or are in arrears; or (iii) were building a track record through a Staff Monitored Program.



Program engagement with LIC FCS tends to be repeated. Between January 2010-March 2020, the median (average) length of successive program engagement with LIC FCS was 8.5 (7.6) years, broadly similar to the median (average) for LIC non-FCS of 9 (7.1) years.



⁶ The high level of international reserves may be a further reason why the Libyan authorities have not requested Fund financial support. Two other FCS falling in this category (non-small states that did not receive any emergency or financing under UCT-quality Fund supported programs during the pandemic) are Burundi and Iraq.

Box 1. Fund Lending to FCS (concluded)

Fund lending has intensified since the start of the pandemic. Since April 2020, 30 out of the 42 FCS have received financial support mostly through emergency financing (SDR 3.5 billion under RCF/RFI and SDR 449 million from the CCRT¹). The surge in emergency financing was facilitated by the temporary increase of annual and cumulative access limits under the Rapid Credit Facility and the Rapid Financing Instrument in April 2020. More recently, many FCS have either resumed program engagement or started new program discussions. Since October 2020, two arrangement requests have been approved for FCS; ten program reviews have been completed; and ten new arrangement requests for FCS are under discussion as of July 2021.

Summary of IMF Financial Support for FCS during COVID-19
(April 2020-Current^{1/})

Fund Support Through	Number of Countries	Amount (SDR millions)	
RCF/RFI	24	3,474	
CCRT ^{2/}	21	345	
UCT ^{3/}	14	Amount Approved	Amount Disbursed during Pandemic
		4,686	731
Totals	30^{4/}	8,505	4,550

Source: MONA
 1/ As of 7/12/2021.
 2/ So far, CCRT grants of SDR 345 million have been disbursed covering debt service to the Fund falling due from April 2020 through October 2021, with the rest to be disbursed in October 2021, subject to the resource availability under the CCRT
 3/ Eleven ongoing UCT-quality programs (Central African Republic; Congo, Rep.; Cote d'Ivoire; Gambia; Guinea; Liberia; Mali; São Tomé and Príncipe; Sierra Leone; Somalia; Togo), three of which had an augmentation (Gambia; São Tomé and Príncipe; Togo); and three new UCT-quality programs (Afghanistan; Madagascar; Sudan).
 4/ Total number of unique countries that received support.

¹ To date, CCRT grants of SDR 345 million have been disbursed covering debt service to the Fund falling due from April 2020 through October 2021, with the rest to be disbursed in October, subject to the resource availability under the CCRT.

Fund’s Experiences with Financial Engagement with FCS

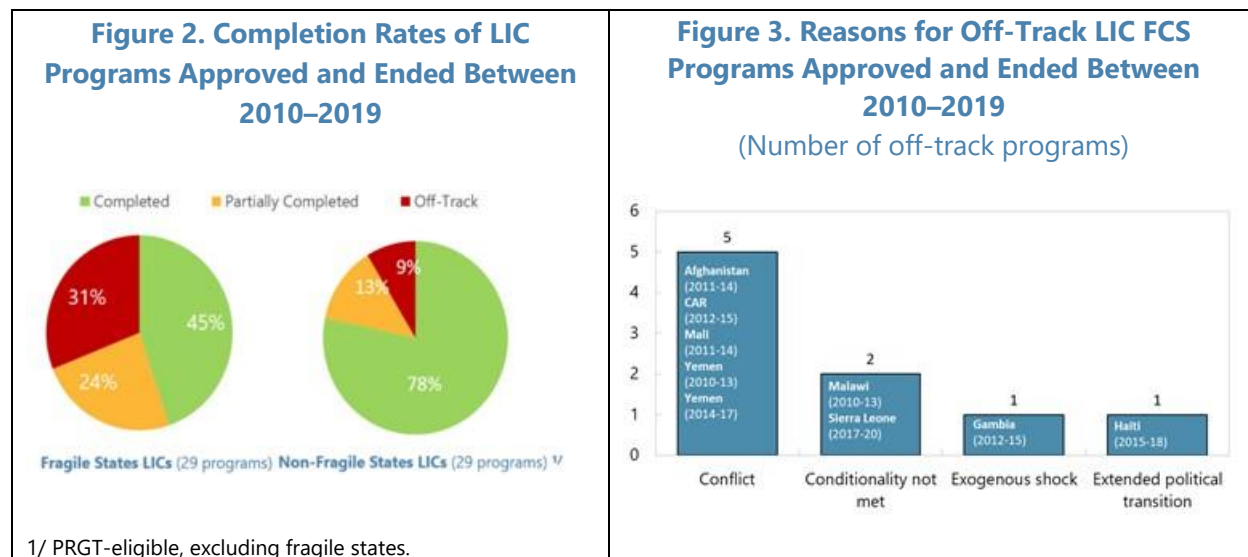
10. Fund-supported programs with FCS have achieved significantly lower completion rates and higher likelihood of going off-track than those for other countries.⁷ The 2018 IEO report attributed lower completion of programs for FCS to inherent challenges, including their vulnerability to political or economic shocks and generally higher uncertainties. Analyzing a more recent sample indicates that only about 45 percent of LIC FCS Fund-supported programs completed all reviews, compared with almost three-quarters for the peer group of non-FCS LICs (Figure 2).⁸ Also, 31 percent of LIC FCS programs (9 programs) went off-track, compared with 10 percent for the peer group (3 programs).

11. Fund-supported programs with FCS face various challenges. The main reasons why FCS programs went off-track between 2010 and 2019 were conflict (in five out of nine cases) and non-implementation of program conditionality (Figure 3). Analysis from past programs also underlines

⁷ See [2018 Review of Program Design and Conditionality](#). Following the classification used in the 2018 RoC, programs are (a) completed if all planned reviews have been completed; (b) partially completed if two or more, but not all, reviews have been completed; and (c) off-track if less than two reviews have been completed and there were at least two or more reviews planned at approval.

⁸ This analysis covers all LIC FCS programs that were approved and completed between 2010-2019 (Annex IV lists all FCS programs during the period considered, including for LIC FCS).

the greater difficulty to project growth in fragile than non-fragile contexts (Box 2). Further, lessons from past experiences with FCS programs suggest specific difficulties surrounding three main areas of program design and conditionality, agility in the lending toolkit and financing terms and conditions (Box 3).



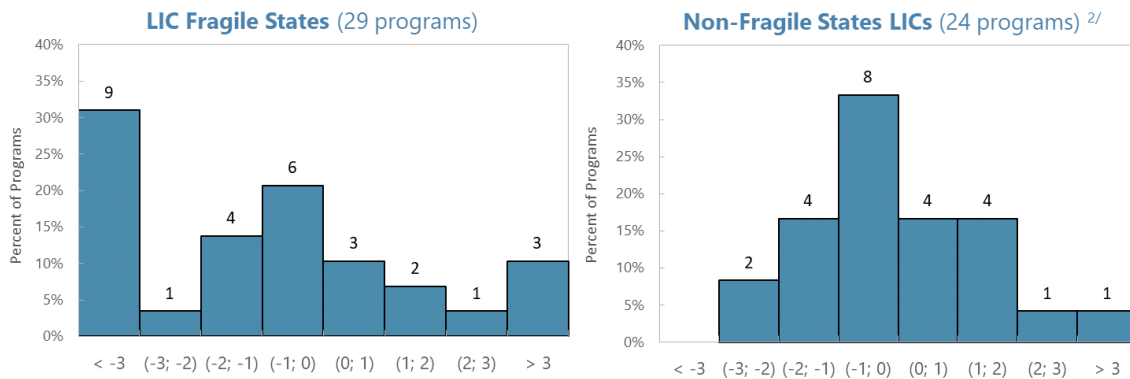
Box 2. Growth Uncertainty in FCS Programs

The range and scale of risks facing FCS make program design particularly challenging. An analysis of Fund-supported programs over the past decade indicates that growth fell short of projections more frequently in LIC FCS than non-FCS LIC programs.¹ Also, large growth forecasting errors (with negative projection errors exceeding 3 percentage points) were prevalent in LIC FCS programs but limited in non-FCS LIC programs. In line with the 2018 RoC finding, growth optimism was particularly pronounced in LIC FCS programs that went off-track, with growth falling short of projections 89 percent of times compared with 69 and 43 percent, respectively, in completed and partially completed FCS programs.

¹ The sample includes 29 LIC FCS (27 ECF, and 2 SCF) and 29 non-FCS LIC (12 ECF, 2 ECF-EFF, 9 PSI, 4 SBA-SCF, 2 SCF) Fund-supported programs.

Growth optimism in LIC FCS and non-FCS LIC Fund-supported programs.

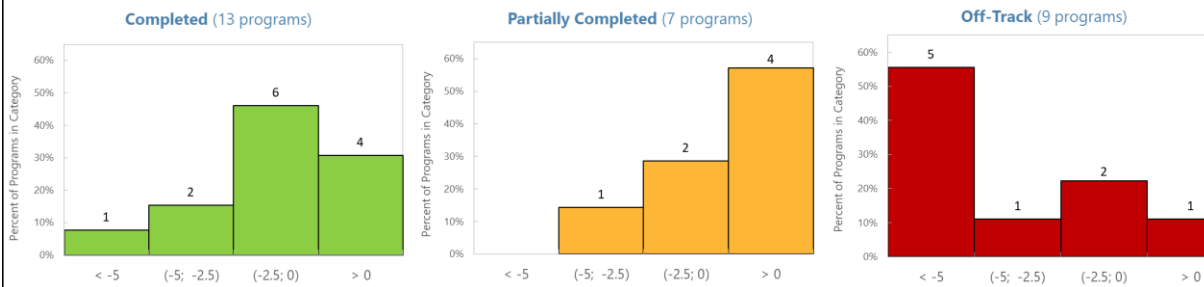
Distribution of Growth Forecast Errors ^{1/}



^{1/} Includes programs approved and completed between 2010-2019. Numbers on the outside end of bars are the counts of programs in each bin.

^{2/} PRGT-eligible, excluding fragile states.

Distribution of Growth Forecast Errors by Program Completion in Fragile States LICs^{1/} (Actual growth at T+1 minus T+1 growth forecast at T), percentage points



Notes: Programs are (a) completed if all planned reviews have been completed; (b) partially completed if 2 or more, but not all, reviews have been completed; and (c) off-track if less than 2 reviews have been completed and there were at least 2 or more reviews planned at approval.

^{1/} Includes programs approved and completed between 2010-2019. Numbers above the bars represent the count of programs in each bin.

Box 3. Lessons from Past Experiences with FCS Programs

Issues Around Program Design and Conditionality

Designing programs, including setting quantitative targets and structural conditionality, has proved to be difficult in FCS by the very nature of fragility. While Fund-supported programs should ensure or restore macro stability and, as appropriate, address underlying structural problems to help members solve their balance of payments (BoP) problems, adequately taking into account the specific challenges associated with fragility and conflict remains complex. The following two situations illustrate some of the FCS-specific challenges in designing programs:

- **Overly ambitious program targets and conditionality that are not well calibrated to country circumstances can contribute to programs going off-track.** In some cases, the priority, emphasis, and sequencing of program targets and conditionality may be too ambitious because they do not adequately take into account institutional and policy capacity, or do not internalize political economy constraints faced by the authorities (which are often the result of conflict).
- **Among others, setting fiscal targets and objectives under high uncertainty can lead to excessive fiscal adjustments or to missed quantitative conditionality.** In some cases, fiscal quantitative targets and reform objectives are set at levels that leave little room to respond to changes in the economic and policy environment. Achieving the targets under such circumstances could lead to procyclical fiscal adjustments and weakening of reform ownership.

Issues Around Lending Toolkit Agility

The agility of the toolkit to respond to short-term developments currently appears constrained in some cases. There is a tension between the need to restore or ensure short-term macroeconomic stability in highly uncertain contexts, the medium-term focus of Fund lending, and the importance of having long-term sustained engagement to better assist FCS. Staff identify the following situations where the agility of the existing lending toolkit is constrained:

- **A program cannot be launched because the authorities are temporarily unable to commit to medium-term policy measures.** In some cases, country authorities are unable to commit to a package of measures to be implemented over the medium term to resolve their protracted BoP needs, often because of a volatile political and security context. Short-term instruments, such as one-year SBAs or one-year SCFs for LICs are intended to address short-term BoP difficulties. As such, there is currently no short-term UCT-quality instrument for LICs suffering protracted BoP needs but unable to commit to a medium-term ECF due to excessive uncertainty, which is the case of most LIC FCS.¹⁷
- **A medium-term program is launched despite high likelihood of political disruption at program mid-point or before.** The impact of the political cycle on economic decision making is difficult to assess in advance. Still, elections in some countries are expected to be preceded by long pre-election campaign periods and followed by protracted post-election coalition agreement processes. Here again, the absence of a short-term UCT-quality instrument is problematic.
- **A Staff Monitored Program (SMP) is initiated, but lack of financing makes it hard for the member to implement essential reforms.** Members that are unable to immediately implement a UCT-quality program often build a track-record through an SMP (See Annex VI and VII for the SMP use by FCS). They can also draw emergency financing concurrently, such as the RCF for LICs and the Rapid Financing Instrument (RFI) for all members, but this requires an urgent BoP needs that, if not addressed, would lead to severe economic disruption. Moreover, such countries are unlikely to have sufficient financing to close financing gaps, which will complicate their efforts to undertake difficult reforms while ensuring stability.

Box 3. Lessons from Past Experiences with FCS Programs (concluded)

Issues Around Financing Terms and Conditions

Debt sustainability concerns, financing availability, and debt-servicing capacity may preclude or delay Fund program engagement or emergency financing. A few FCS cannot access Fund lending because they do not meet qualifications for an UCT-quality program or the conditions for emergency financing. The following situations illustrate how existing Fund financing terms may impact Fund program engagement:

- **Fund financing may be precluded on debt sustainability grounds or in situations of arrears towards the IFIs.** In some cases, countries may not meet the debt sustainability requirement under IMF safeguards for Fund financing, which is applicable to both program engagement and emergency financing. In other cases, countries may have arrears towards the Fund and other multilateral creditors that preclude IMF lending.^{2/} In these cases, the Fund continues to engage through policy advice and capacity development support.
- **Slow progress in improving external viability and debt-servicing capacity.** Addressing structural weaknesses and causes of fragility usually take longer than addressing typical BoP difficulties in other countries. This means that improvements in external viability in FCS may not materialize fully while Fund financing is repaid, adding to external financing constraints.

1/ The ECF, which is the standard UCT-quality program for LIC FCS, has a minimum duration of three years.

2/ Fund lending into arrears to official multilateral creditors is discussed in *Sovereign Debt Restructuring—Recent Development and Implications for the Fund's Legal and Policy Framework and Reforming the Fund's Policy on Non-Tolerance of Arrears to Official Creditors*. For the Fund to provide financing in the face of arrears to the World Bank, an agreed plan on arrears clearance is required. Financing in the presence of arrears to other multilateral creditors, requires that the program has a credible plan and projected financing to eliminate the arrears, but the consent of the multilateral creditor is not required.

AREAS FOR POTENTIAL IMPROVEMENTS

12. Lessons from past engagement can help guide the exploration of possible lending reforms that would provide better tailored support for FCS.⁹ To better address the specific circumstances and heterogeneity of FCS, the lending reforms for FCS could aim to achieve three objectives: (i) better tailoring program design and conditionality, (ii) making better use of and possibly expanding the agility of the lending toolkit, and (iii) potentially improving the Fund's financing terms where needed. These three areas for potential improvements are discussed next.

Strengthening Long-Term Engagement with FCS by Better Tailoring Program Design and Conditionality to FCS-Specific Challenges

13. The difficulty in designing programs that adequately differentiate FCS from other countries calls for concrete and operational guidance to better tailor and streamline program design and conditionality to FCS specificities, informed by a long-term engagement strategy.

⁹ The proposed lending reform options would not directly prevent conflict (one main reason for programs going off-track), but could support efforts to lower the risks of conflict by improving economic conditions or helping stabilize the economy in post-conflict situations.

Realistic and robust medium-term macro frameworks are needed in all countries to avoid overly ambitious program targets that could contribute to programs going off track or to excessive fiscal adjustment, but they are particularly challenging in FCS settings due to the frequently low resilience to unanticipated (albeit frequent) economic and political dislocations. Also, credible long-term engagement with FCS should involve establishing a set of well-sequenced and prioritized reform areas, including to build fiscal and financial institutions over time. To achieve this, the structural reform agenda underpinning program design and conditionality in FCS needs to be adapted to the country's capacity to implement required policies, binding political economy constraints, the lingering impact of conflict and other various fragilities. In addition, coherent, well-tailored, and realistic conditionality is particularly important in FCS. (See Section IV, Options 1-A, 1-B, and 1-C for details).

Enhancing the Agility of the Lending Toolkit

14. Limited ability to respond swiftly to rapidly changing economic dynamics, political dysfunction, or conflict requires enhancing agility in the use of the Fund's lending toolkit to better help FCS escape the fragility trap. The most effective mode of engagement with a country could vary over time depending on circumstances. For instance, shorter program engagement could be the best vehicle to help the authorities implement measures to ensure stability in the immediate aftermath of violence and/or volatile security environments, or more broadly when they cannot commit to the medium- to long-term policies to address protracted BoP difficulties. In case of inability to implement a UCT-quality program, the concurrent use of SMPs and RCF/RFI could be used more frequently under certain circumstances. Moreover, when the member is experiencing a 'pivotal moment', such as when reform momentum is gathering pace (e.g., post conflict), Fund financing may provide additional leverage for reforms. Prompt provision of financial support may in turn enhance the Fund's catalytical role in securing financing from other donors. The agility of the lending toolkit could be enhanced by better use of the current lending toolkit while leaving the current lending architecture broadly unchanged (see Section IV, Options 2-A, 2-B, and 2-C for details), and/or by modifying more significantly the architecture (see Section V, Options 4-A and 4-B for details).

Improving Financing Terms Where Needed

15. The financing terms of the relevant Fund lending facilities are not inherently well suited to those FCS facing debt sustainability concerns, which calls for consideration of more concessional terms. If the debt sustainability requirement under IMF safeguards is not met and the member is facing a natural disaster, a situation of immediate post-conflict, or another emergency, grant financing would be most appropriate. However, the Fund typically provides temporary balance of payments support. Even though the Fund can also provide grants for targeted debt or debt service relief operations, grants for development finance needs are better provided by traditional development institutions such as the World Bank. The Fund could instead consider the possibility of providing the option of longer-maturity lending under certain circumstances, which could help address part of the need for more concessional terms in some FCS situations. Lengthening maturities of lending to FCS would better align the repayment schedule with the longer-term financing needs

of the country, as the latter improves only gradually through the positive impact of reforms. A complementary option could be to leverage more the Fund's activity to help members develop macro and policy frameworks. The Fund's role to support macroeconomic stability, develop institutions and policy frameworks, help achieve debt sustainability, and improve financial systems would complement the work done by other partners, in particular the World Bank, and help the donor community raise grants managed by others than the Fund itself (See Section IV, Options 3-A and 3B for details).

16. Lending to FCS is intrinsically risky, and while some reform options considered below may entail a higher risk exposure for the Fund's lending portfolio, better tailoring of instruments and conditionality could help mitigate risks. Options that might increase the risk profile include more inherent repayment uncertainty due to longer maturities and a lower adjustment/financing balance due to potential wider usage of post-program financing gaps. These and other risks, and implications for Fund resources and capacity to repay the Fund, would need to be analyzed in detail in a subsequent paper once the potential reform options have been pared down. Ensuring adequate safeguards will be of paramount importance, aiming to find the right balance between higher exposure to inherently riskier FCS and adequate program design and conditionality. These could include, but would not be limited to, access limits, higher scrutiny of capacity to repay the Fund, and tight ring-fencing of possible lending options. However, higher exposure to FCS through engagement (e.g. RCF/SMP or UCT-quality arrangements), that is well tailored to country circumstances and has the ability to be adjusted in an agile fashion to changing circumstances, could actually reduce risks.

REFORM OPTIONS THAT WOULD LEAVE THE CURRENT LENDING ARCHITECTURE BROADLY UNCHANGED

17. The analysis above points to scope for further tailoring program design and conditionality, improving the agility of the lending toolkit by exploiting more thoroughly or even increasing existing flexibilities, and better aligning financing terms with FCS repayment capacity. This section discusses reform options to address the identified gaps in each of those three areas, while leaving the current lending architecture broadly unchanged. Unless otherwise indicated, the focus in this section is mostly on PRGT instruments.¹⁰ There is a large overlap between FCS and PRGT-eligible countries, with also a relatively higher degree of fragilities in FCS that are PRGT-eligible.¹¹ It should be noted that the different options are not mutually exclusive, and any reform package would likely entail a combination of options.

¹⁰ Most options to enhance financial engagement in non-PRGT-eligible FCS would require changes to the lending architecture, such as through a dedicated Trust Fund (see section V).

¹¹ Out of 42 economies in the latest Fund internal FCS list, 36 countries are eligible for PRGT resources. Among them, 5 countries are presumed blenders as of July 2021, deemed based on the income level and market access.

Better Tailoring Program Design and Conditionality

Option 1-A: Developing operational guidance for tailoring and streamlining conditionality to country-specific needs and implementation capacity

18. The core principles of conditionality apply to all Fund-supported programs, including those for FCS. Conditionality enables the Board to (i) monitor whether the program is on track, including by assessing whether the authorities are delivering on commitments, and (ii) establish adequate safeguards for the use of the Fund’s resources.¹² Conditionality for all Fund-supported programs, including those for FCS, should be guided by the key principles, including parsimony, specified under the Conditionality Guidelines.

19. While conditionality has been generally well tailored to country needs and program objectives (2018 RoC), there has been limited differentiation in the approach for FCS. Thus, the 2018 RoC called for more systematic analysis of the sources of fragility, steps to streamline and better tailor program objectives and related structural conditionality, focusing on short-term realistic measures. As such, staff need to further explore the scope for better tailoring and streamlining program objectives and conditionality for FCS, including by expressing policy commitments in the authorities’ MEFP (rather than through structural benchmarks) where appropriate.¹³ Conditionality should be parsimonious without compromising the achievement of program goals and the Board’s ability to monitor the authorities’ progress at achieving them.

20. Operational guidance on how to better streamline and tailor structural conditionality should be prepared. While the [2012 Guidance Note on the Fund’s engagement with FCS](#) encouraged better tailoring of program design with an emphasis on gradualism, flexibility, and parsimony, the 2018 IEO report indicated that the principles it advocated had not been implemented in specific instances. Staff proposes to update the Guidance Note in 2022 to help improve the operationalization of these principles, drawing on lessons from the past decade of FCS program experiences.

Option 1-B: Using Country Engagement Strategies (CES) to inform program design and conditionality for each FCS

21. A holistic long-term CES would support efforts to better integrate policy advice, financial support, and capacity building in FCS.¹⁴ By enriching understanding of key challenges surrounding Fund engagement with FCS, identifying capacity development needs, and informing specific ways to leverage partners at country level, the CES would help guide the prioritization and

¹² Conditionality is intended to ensure that Fund resources are provided to members to assist them in resolving their BoP problems in a manner that (i) is consistent with the Fund’s Articles and (ii) establishes adequate safeguards for the use of the Fund’s resources.

¹³ To help achieve parsimony, staff should refrain from introducing conditionality that is requested by donors unless critical for program success or monitoring, while conditions requested by the authorities can be included in the LOI/MEFP (and discussed in the SR) if they are not critical.

¹⁴ The CES approach will be discussed informally at the Board in October as part of the update on FCS Strategy.

sequencing of structural reforms, taking account of the criticality of the measures to achieve program objectives and the Fund's areas of competence and available instruments and resources. The long-term strategy outlined in the CES would contribute to tailored policy advice, financial support, and capacity building, that are calibrated to countries' specific fragilities and implementation capacities, which would enhance the likelihood of program success.

22. The roll-out of CES in the context of the FCS Strategy, building on the experience of pilots that were already conducted, will support efforts to develop coherent and well-designed programs with appropriately streamlined conditionality.¹⁵ In the cases of Afghanistan and Madagascar in the run-up to successor engagements, the CES drew lessons from the previous engagement, identified the various dimensions of fragility, and informed program design and conditionality. The CES candidly assessed what the authorities can achieve, while factoring the time needed to implement reforms, and the need to respond flexibly to new developments. The articulation of the CD strategy as part of the CES also helped ensure that CD priorities were fully aligned and integrated with reform objectives. Going forward, the roll-out of CES in all FCS will be a major support to inform and better tailor program design and conditionality to each FCS situation, while maintaining coherent programs.

Option 1-C: Developing more robust macro frameworks and program targets and provide operational guidance

23. It is essential to build programs with FCS on realistic macro frameworks and reform agendas, factoring in country-specific fragilities and capacity. Optimistic macro frameworks and overly ambitious program targets could be driven by various factors, including the typical assumption that the BoP problems should be addressed within the program period.¹⁶ Leaving no financing gap after the program is generally a reflection of the short- to medium-term focus of a typical Fund-supported program. However, this approach could cause tension with the lasting nature of fragility and ensuing protracted BoP problems in many LIC FCS.

24. The ECF, which is the workhorse instrument for engagement with LIC FCS, features underexploited flexibility. At program approval, the Fund's financing assurances policy requires that (i) "firm commitments" of financing must be in place for the first 12 months of the arrangement, and (ii) there must be "good prospects" that there will be adequate financing for the remaining

¹⁵ These CES pilots are for Afghanistan, Central African Republic, Democratic Republic of the Congo, Haiti, and Madagascar.

¹⁶ In case of programs supported by the GRA, the policy measures aimed at resolving a member's BoP problem should be undertaken during the program period, and the policies must be implemented in a manner that will lead to a strengthening of the member's BoP before repurchases begin. However, there is some flexibility in the ECF under the PRGT because of the protracted nature of the BoP problem. In such cases, the resolution of underlying macroeconomic imbalances needed to establish a stable and sustainable macroeconomic position would be expected to extend over normally three years or more, and in any case more than two years.

program period beyond the first 12 months.¹⁷ Since the ECF is designed to enable members to make significant progress towards a stable and sustainable macroeconomic position and does not require the protracted BoP problem to be fully resolved over the duration of a single arrangement, it can accommodate at program approval unidentified financing in the years immediately after the end of the arrangement. Such post-program financing gaps (PPFGs) are compatible with the financing assurances policy, under certain conditions.¹⁸

25. PPFs would help improve the tailoring of fiscal adjustment paths, program design, and quantitative conditionality to country circumstances. More explicit identification and recognition of PPFs could help strengthen the realism of macro frameworks that underpin the specification of program targets and pace of adjustment and reforms. Operationally, a more plausible macro framework would entail more gradual policy adjustment over the medium to long term, steering away from setting unrealistic or suboptimal program targets. In turn, more realism in program design would provide room to crystalize reforms in LIC FCS, contributing to improved chances of program success.

26. PPFs would need to be carefully calibrated so they are consistent with debt sustainability and capacity to repay the Fund. PPFs in a typical ECF arrangement mean that sources to meet the financing needs in 3-4 years are not fully identified at the time of program approval. However, financing gaps are closed ex-post, most often without economic disruptions, through a combination of post-program policy adjustment and additional financing from other concessional lenders (and/or private lenders). Thus, modest PPFs in the ECF arrangement could be compatible with the Fund's financing assurances policy. However, large PPFs combined with high public debt, constrained policy space, and limited availability of concessional borrowing should be avoided as they would pose or increase risks to debt sustainability and capacity to repay the Fund (CtR). Guidance on the operationalization of this concept should be developed.

Improving the Agility of the Lending Toolkit by Exploiting More Thoroughly or Expanding Existing Flexibilities

27. The current lending toolkit can be made more accessible to FCS by better utilizing or even increasing existing flexibilities. On the one hand, some areas of flexibility have not been systematically utilized in practice, including due to a lack of clear operational guidance. On the other hand, some targeted adjustments in the lending framework could offer significant improvements without fundamentally changing the current architecture. This section presents such options that aim to improve the agility of the lending toolkit. While the proposed options are mostly of a short-term

¹⁷ During program reviews, assurances on full financing of successive 12-month periods beyond the initial 12 months (or whatever period is left under the arrangement) must be ascertained. Specifically, the "good prospects" must become "firm commitments" or actual financing.

¹⁸ In a survey of 27 ECFs since 2012, seven arrangements included unidentified financing in the post-program period (Central African Republic 2016; Grenada 2014; Guinea 2012; Madagascar 2016; Mali 2013; Mauritania 2017; Sao Tome and Principe 2015;), three of which indicated post-program gaps from the outset of the program while others showed emerging gaps in subsequent reviews. Five of those seven arrangements referred to a possible successor arrangement at the final review.

nature, in line with the key challenges identified above, it should be understood that the Fund’s typical engagement with FCS should remain of a medium- to longer-term nature. In particular, the main workhorse for program engagement in LIC FCS should remain the ECF. The options presented in this section are complements and not alternative to this central instrument, with the view to addressing specific situations where the current framework is not entirely satisfactory.

Option 2-A: Articulating more clearly and potentially reconsidering constraints to the concurrent use of SMPs and (repeated) emergency financing (RCF/RFI)

28. Some FCS may experience episodes when they are unable to implement UCT-quality programs and emergency financing is the only source of Fund financing potentially available to them. Where the BoP need, if not addressed, would result in immediate and severe economic disruption, FCS with limited institutional capacity or weak economic policy implementation record could request RCF (for LICs) and RFI (all FCS). In particular, the RCF has been used extensively and repeatedly by LIC FCS facing urgent BoP needs, especially since the onset of the Covid-19 pandemic when a number of countries received emergency financing twice. This raises the question whether concurrent use of SMPs and *repeated emergency financing* could be a more regular part of the Fund’s toolkit—for instance, for FCS that will likely take some time to build a track record.

29. Fund policy already encourages the concurrent use of SMPs to build a track record toward a UCT-quality program along with emergency financing where the member has an urgent BOP need, but the concurrent use of the two instruments has been limited in practice. The absence of ex-post conditionality associated with emergency financing instruments limits their use in support of a policy agenda to address protracted BoP problems. In this context, the concurrent use of RCF and SMP could address the need to anchor policies on a sustainable path towards UCT-quality programs while providing financial support.¹⁹ Financing could also help the authorities implement measures to address a BoP problem as outlined in the general policy undertakings in the RCF/RFI Letter of Intent, while they also implement the SMP. Thus far, only four LIC FCS that were unable to implement a full-fledged UCT-quality program have made concurrent use of the RCF and SMP after suffering severe exogenous shocks (Table 1).²⁰

30. Under current policies, the SMP could also be used with *repeated RCF/RFIs*. The duration of SMPs tends to be longer for FCS than non-FCS, with also a predominance of repeated SMPs for FCS in view of the longer time needed to build a track record.²¹ Should urgent BoP needs persist or

¹⁹ 2017 Handbook of IMF Facilities for LICs, “If the country is not in a position to implement a UCT-quality program (i.e., when institutional and policy capacity is constrained or more time is needed to design a Fund-supported program), it can build a track record through an SMP or, in case it also has urgent balance of payments needs, it can have access to the RCF (which could be used concurrently).” (paragraph 6)

²⁰ DRC, Madagascar, and South Sudan faced commodity price declines and The Gambia was hit by the Ebola outbreak. Papua New Guinea received the RCF (100 percent of quota) in June 2020 in the context of the COVID-19 pandemic, while it was under SMP effective from February 2020. To date, there has been no concurrent use of SMP and emergency financing by non-FCS.

²¹ Almost half of FCS had repeated use of SMPs, compared with none for non-FCS.

recur during the life of the SMP, repeated use of the RCF could be justified. However, no FCS has had concurrent use of SMP with repeated RCFs thus far.

Table 1. Concurrent Use of SMP and Emergency Financing by LIC FCS^{1/}

Country	SMP		RCF			Successor Program
	Approval Date	End Date	Disbursement Date	Amount (SDR Millions)	Amount (percent of quota)	
DRC	12/16/2019	5/31/2020	12/16/2019	266.5	25	No
Gambia	4/2/2015	12/31/2015	4/2/2015	7.8	25	2019 SMP, then 2020 ECF
Gambia	6/26/2017	3/31/2018	6/26/2017	11.7	18.75	
Madagascar	11/18/2015	3/31/2016	11/18/2015	30.6	25	2016 ECF
South Sudan	3/30/2021	12/31/2021	3/30/2021	123.0	50	N.A.

^{1/} The concurrent use of SMP and RFI is also possible. In the case of Iraq, the RFI approved in August 2015 was later followed by an SMP, effective from November 2015 to December 2016.

31. Current policies place some constraints on repeated RCF/RFI disbursements, which has implications for members seeking SMPs. First, a subsequent RCF/RFI cannot be pre-committed as, under the current framework, the authorities need to request each RCF/RFI disbursement, and the requests should be approved on a stand-alone basis. Second, the restriction on the number of RCF within a 12-month period, which was suspended until end-2021, could limit their broad use in combination with SMPs for track record building.²² Third, the presence of urgent BoP needs required for RCF or RFI would limit the cases of potential concurrent uses for track record building. Finally, the limit on cumulative access to RCF/RFI can constrain the repeat use of non-UCT support.

32. These constraints could be more clearly articulated and potentially also reconsidered. The circumstances under which members can request repeated RCF/RFI disbursements in response to a persistent or protracted financing needs could be outlined in operational guidance. Consideration could also be given to establishing a new window under the RCF and RFI when combined with the SMP, to address actual and present BoP needs even if they are not urgent. Such a modification, however, would present a more fundamental change in the design of the RFI/RCF that would require further staff analysis if it were to be pursued.²³ The concurrent use of SMPs with

²² The restriction stipulates that a member may not receive more than two RCF disbursements in any 12-month period.

²³ Emergency assistance is premised on the existence of an urgent BoP need. Removing the requirement of an urgent BOP need for support under the emergency financing instruments (RCF and RFI) would entail a fundamental change in the nature of these instruments. In the case of the RCF, such a change would require an amendment of the provision of the PRGT Instrument that sets out the purpose of the RCF which provides that RCF financing “supports policies [...] of members facing urgent balance of payments needs...” This provision is among the “protected

(continued)

emergency financing under the new RCF/RFI window would provide a non-UCT financing option to FCS that need to build a track record. Consideration to higher access limits under RCF/RFI, including making permanent the current higher cumulative access limit on emergency financing, specifically for the RCF under the exogenous shocks window (150 percent of quota), and easing the restriction on repeated RCFs, to the extent that they do not materially lower incentives for UCT-quality programs or undermine Fund safeguards, could enhance the usability of the option of concurrent use of SMPs and (repeated) emergency financing. Conditions for repeated disbursements will need to be carefully considered. Further analysis will be needed, and risks and safeguards will need to be carefully assessed, including for any further increases in access limits under the RCF/RFI, and exploring potential differences between RCF and RFI.

Option 2-B: Developing new operational guidance on Floating Tranches to clarify their use and to better integrate into UCT-quality conditionality

33. Floating tranches can give the authorities greater flexibility in determining the timetable for implementing selected structural reforms, thereby enhancing ownership. Floating tranches are defined as purchases or disbursements whose availability is contingent on the implementation of specific measure(s), rather than being tied to a fixed Board review schedule. Such measures should satisfy two criteria: (a) strengthen the external position over the medium term, so that the release of additional Fund resources is justified; and (b) increase the balance of payments need in the short term—otherwise, the program would be either underfinanced without the relevant measure, or overfinanced with it.²⁴ As implementation of these measures is uncertain, floating tranches could be particularly helpful for FCS facing volatile developments and a highly uncertain outlook, which call for flexible policy design to enhance reform ownership.²⁵ However, conditionality under the program should still be largely defined with a fixed timetable to ensure adequate Board oversight, prompt resolution of BoP problems and to safeguard Fund resources.

34. Floating tranches can help address challenges of better tailoring program design in FCS. The use of floating tranches would add more resilience to the program by providing more flexibility to address the impact of the materialization of program risks. Floating tranches can also help avoid delays in program engagements where an upfront commitment on specific timing is undesirable, for example because of uncertainties about the process and therefore timing to build

provisions” of the PRGT that can only be amended with the consent of affected PRGT lenders and subsidy contributors. It would also require approval by the Board with an 85 percent majority of the total voting power as the modification would change the authorized use of Special Disbursement Account (SDA) resources in the PRGT.

²⁴ [Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines](#).

²⁵ After their introduction in the 2002 Review of Conditionality, floating tranches (FT) were incorporated into the 2003 Guidelines on Conditionality and were further elaborated in the 2005 Review of Conditionality, envisaging their use in trade liberalization and debt operations. Their limited use thus far is due to a number of reasons, including difficulty in quantifying the short-term BoP need associated with the FT measure, the need to justify the advantage of FT over a typical structural benchmark, efforts to streamline conditionality, and limited awareness of staff and authorities about FT.

broad support for a specific reform.²⁶ Lastly, by combining floating tranches with traditional conditionality to support structural reforms (e.g., prior actions and structural benchmarks), a program could support broad reform initiative without undermining the principle of parsimony. However, given the limited use of the floating tranche, further work is needed to provide more concrete operational guidance on the context where it could be used and how it can be integrated into UCT-quality conditionality.

Option 2-C: Allowing the option of a short-term UCT-quality program as a first step to address protracted BoP needs (through introduction of a new facility or lowering the minimum duration of ECFs)

35. A possibility of a short-term UCT-quality program for cases of protracted BoP needs would enhance the agility of the existing concessional lending framework.²⁷ The existing PRGT facility for short-term program engagement—the Standby Credit Facility (SCF)—is inappropriate for most FCS as it is intended for countries with a broadly stable frameworks, whereas the only instrument to help address protracted BoP problems in LICs, the ECF, has a minimum three-year duration. This leaves a potential gap for FCS that have a protracted BoP problem but are not able to articulate or commit to medium-term policies. As discussed in the 2019 review of concessional facilities, and confirmed in the 2021 Review of Concessional Financing and Policies,²⁸ the ECF already has considerable flexibility to focus on short-term policies in the presence of protracted BoP problems, and policies can always be adapted during the course of a three-year arrangement. However, there are some fast-moving situations where medium-term policy commitments may be difficult to secure, given the special circumstances and capacity constraints of some FCS.²⁹ While such situations could also be covered through combined RCF/SMP support, access may be low in some circumstances, and donors may seek a stronger signal from a UCT-quality program. Such situations could potentially be addressed by introducing a new short-term facility, or lowering the minimum duration of the ECF arrangement. Further staff analysis would be necessary on this option, in particular to what extent short-term ECF arrangements could be considered to be consistent with the purpose of the current ECF as defined in the relevant provisions of the PRGT Instrument.³⁰

²⁶ HIPC initiatives adopt an approach broadly similar to floating tranches. The floating completion point trigger is contingent on the achievement of specific targets.

²⁷ To meet UCT standards, the short-term facility or shorter ECF would have to be designed in a manner that the member's BoP problems are being addressed, and that adequate confidence is provided to the Fund that the improvements will allow the member to repay Fund resources by the time repayments fall due.

²⁸ See "Review of Concessional Financing and Policies—Potential Policy Reforms", FO/DIS/21/44, March 23, 2021.

²⁹ In practice, the flexibility to accommodate a near-term focus with streamlined conditionality under a 3-year ECF has not always proven sufficient for FCS members.

³⁰ Under the PRGT Instrument, the purpose of the ECF is to "support programs under the Extended Credit Facility (hereinafter called the "ECF") that enable members with a protracted balance of payments problem to make significant progress toward stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth". For a definition of a stable and sustainable position, see paragraph 7 of SM/09/160. A fundamental modification of a PRGT facility that transforms its overall nature, or a change in its purpose, would

(continued)

36. A short-term UCT-quality program would allow for important initial stabilization and reform gains, consistent with the long-term engagement strategy, in situations where circumstances are fast changing and where a three-year program is not feasible. Exiting from fragility is likely to take many years, and the Fund will need to adapt specific interventions to the prevailing circumstances. In a highly volatile environment and where BoP needs are protracted, the authorities sometimes cannot credibly commit to a medium-term policy framework. Such situations are particularly relevant in post-conflict, post-disaster, or other crisis situations, where policy capacity is severely constrained and there is a need to short-term stabilization measures. Short-term programs could then help generate quick macroeconomic gains and pave the way for a medium-term arrangement—and remaining consistent with a long-term strategy. In this context, a program supported by a short-term facility (with a duration of 1-2 years) or shorter ECF (by reducing the minimum duration from 3 to 1-2 years) could better realign policy targets, accommodate the political timetable (such as the election cycle or political transition in an immediate post-conflict situation), and serve as a bridge (or transition) to an eventual medium-term arrangement. It would support the authorities' efforts to continue advancing ongoing reforms. Access under the short-term facility or the shorter ECF would be lower than under the current, longer ECF. Shorter ECF arrangements would also be more likely to allow for a financing gap in the post-program period, which could be covered by multiple sources, including potentially a medium-term UCT-quality program.³¹

37. A short-term UCT facility or shorter ECF would need to be tightly ring-fenced. Its short duration may limit the scope and depth of entirely new structural reforms. It would also potentially encourage countries to rely on occasional short-term support at higher access levels without committing to implementing the necessary medium-term policy measures that help underpin progress toward a stable and sustainable macro position. The implications of the post-program financing gap for capacity to repay the Fund and debt sustainability would need to be carefully assessed. In addition, a short-term facility or shorter ECF should be limited to specific situations where a three-year ECF is not feasible. The short-term UCT facility or shorter ECF would also need to be made available to non-FCS members that are in economically similar circumstances. In any case, staff considers that the standard 3- to 5-year ECF should remain the main workhorse instrument to accompany LIC FCS, whose challenges need time to be resolved, and specific cases for Fund financing under a new short-term facility would need to be well justified by special BoP problems associated with circumstances such as post-conflict, post-disaster, or other fast-moving economic/crisis environments where medium-term policy commitments are difficult to secure due to severe capacity constraints. The practical challenges of creating a new facility under the PRGT—including the need to secure broad support from the membership as well as consents from PRGT

require consent by affected PRGT lenders and subsidy contributors (see footnote 22 of SM/09/189) and would require an 85 percent majority of the total voting power in the Executive Board as it would change the authorized use of Special Disbursement Account resources in the PRGT.

³¹ Successor program financing should not be assumed in the macro-framework as a mean to close post program financing gaps, as staff cannot prejudge future Board decisions on successor arrangements. Therefore, successor arrangements should not be an *ex ante* assumption for the initial program.

subsidy and loan contributors—would be elaborated at a later stage if the option gains a support from the Executive Board.³²

Better Aligning Financial Terms to FCS Financial Capacity

38. The current financial terms of Fund lending could be further improved, which would be particularly helpful for FCS with low debt carrying capacity and/or facing debt sustainability concerns. Many FCS are in a *de facto* fragility trap, and their ability to service debt may improve only gradually as policies under a Fund-supported program eventually deliver stronger growth and reduce vulnerabilities. Thus, there is in principle a potential case for aligning the grace period and maturity of relevant lending instruments with progressive improvement in capacity to repay. Such alignment would likely entail increased concessionality. For example, a doubling of maturities (say, to a ten-year grace period and 20-year final maturity) would reduce peak debt service to the Fund by half for the typical non-blender, and increase the grant element by 20 percentage points. This issue was discussed at length in the “Review of Concessional Financing and Policies” papers, which concluded that such reform was not necessary for PRGT-eligible countries but could merit further analysis in the case of FCS given their special circumstances and financing needs.³³

39. A successor arrangement would also *de facto* extend the maturity of repayment obligations incurred under a former program. Over 2010-20, two thirds of ECFs for LIC FCS were approved while repayments for earlier ECFs were ongoing, and eight LIC FCS (out of the 23 that used at least one ECF arrangement during this period) received such financial support for more than seven years (out of the 11 years in this period). Repeated financial engagements would effectively extend the maturity of earlier loans, while keeping the overall exposure to the Fund unchanged. However, the Fund cannot pre-commit to a successor arrangement and approval of each arrangement is assessed on its own merits. Also, as noted in ¶10, a material share of FCS programs tends to go off-track, indicating that the *de facto* extension of maturity of repayment through successor arrangements would not be a viable option for all FCS.

Option 3-A: Lengthening the maturity of instruments under the PRGT Fund lending

40. Longer PRGT loan maturities may be better suited for some FCS with constrained debt service capacity and long-term development challenges. As indicated above, Fund-supported programs would deliver higher growth and stronger capacity to repay only gradually. Longer maturities would stretch out debt service to the IMF, giving FCS more time to adjust their BoP positions and enhance debt-carrying capacity without squeezing priority spending. Options to achieve this include lengthening the maturity of loans under the ECF, or creating a new ECF window designed for members experiencing the very protracted BoP problems, which is typical for some FCS.

³² See SM/19/100 providing that “Establishing a shorter-term version of the ECF would have required a more fundamental change in the structure of the LIC facilities architecture and support from all PRGT contributors”.

³³ See “Review of Concessional Financing and Policies-Potential Policy Reforms”, FO/DIS/21/44, March 23, 2021, and “Review of Concessional Financing and Policies-Financing Consideration”, FO/DIS/21/45, March 23, 2021.

41. However, this option also faces some implementation challenges and entails trade-offs.

Identifying a special, more protracted BoP problem that would be exclusively applicable to LIC FCS—and not to other LICs—would be technically difficult and raise uniformity concerns.³⁴ Also, the benefits accruing to borrowing countries would come at the cost of tying up scarce PRGT resources for a longer period. In addition, longer PRGT maturities would require more subsidy resources alongside new loan resources, and would significantly reduce reserve coverage in the PRGT. Another complication is that once a country reaches the normal cumulative access limits, it would be many years before it could regain access to new non-Exceptional Access arrangements.³⁵ A possible new facility with longer maturities, which could be supported by resources other than PRGT, and would be directly linked to the FCS list, is discussed in the next section. In light of these drawbacks, there was insufficient Executive Board support for longer maturities in the context of the PRGT reforms presented for discussion at the Board in April 2021 and subsequently approved in July under the 2021 Review of Concessional Financing and Policies.

Option 3-B: Leveraging more the Fund's engagement to help the donor community raise grants

42. The benefit of grant financing would be to limit member's exposure to official debt and to provide assistance in cases where debt sustainability is not assured, as they do not require assessments of capacity to repay.

Grants can provide relief to FCS affected by natural disasters or conflict, including in cases where the member is temporarily unable to access Fund financing. However, direct grant provision is not within the scope of the Fund's traditional financing model that involves the revolving nature of its resources disbursed in the form of repayable loans or purchases.³⁶ The provision of grants could also call into question the division of responsibility among IFIs and donors, and generate further competition for donor funding. Previous discussions on this issue have shown insufficient support within the membership to envisage the Fund providing grants.³⁷

43. While the provision of grants directly by the Fund seems out of reach, enhanced Fund engagement could help FCS effectively mobilize further grants and concessional financing from development partners. As indicated by the 2018 IEO report, donor financing tends to increase substantially following the approval of a Fund-supported program. The development of well-structured programs, informed by CES, could help strengthen these efforts. SMPs could also be used

³⁴ As the PRGT includes resources from the Special Disbursement Account derived from gold sales profits, any differentiation among members has to be based on relevant economic criteria, in particular income or nature of BoP need.

³⁵ For an extensive discussion of these issues see "Review of Concessional Financing and Policies-Potential Policy Reforms", FO/DIS/21/44, March 23, 2021, and "Review of Concessional Financing and Policies-Financing Considerations", FO/DIS/21/45, March 23, 2021.

³⁶ The CCRT enables the IMF to deliver grants to eligible low-income countries in the wake of catastrophic natural disasters and major, fast-spreading public health emergencies to repay obligations to the Fund. In response to the COVID-19 crisis, the IMF approved changes to the CCRT that expand the qualification criteria to better cover the circumstances created by a global pandemic and to focus on delivering support for the most immediate needs.

³⁷ See "Review of Concessional Financing and Policies-Potential Policy Reforms", FO/DIS/21/44, March 23, 2021, and "Review of Concessional Financing and Policies-Financing Considerations", FO/DIS/21/45, March 23, 2021.

more to facilitate donor support (Option 2-B). Moreover, enhanced engagement through surveillance and capacity building will help FCS members develop better policies, supporting also their efforts to mobilize grants and concessional financing.

MORE FUNDAMENTAL MODIFICATIONS OF THE CURRENT ARCHITECTURE: A NEW PRGT FACILITY OR A NEW TRUST FUND FOR FCS

44. Consideration could be given to more fundamental changes of the lending architecture beyond the options presented in the section above. This section discusses options to address better the needs of FCS by establishing either a new facility for FCS under the PRGT (to improve the toolkit for LIC FCS), or a new trust fund for FCS, which could cover both LIC and non-LIC FCS.

Option 4-A: Creating a new FCS UCT financing facility under the PRGT with longer maturities

45. A new UCT facility, better tailored to FCS' needs in terms of flexibility and maturity, could be established under the PRGT. Creating such a new facility could provide UCT-quality program support similar to that of the ECF, while also allowing more flexible program duration and greater concessionality through longer maturities. This would likely imply that many LIC FCS (and other LICs with similar BoP needs) would no longer use the ECF, as they would have access to a more concessional and flexible facility. Given the long-term nature of protracted BoP problems and fragility, repeated use of the facility could be allowed.

46. Such a new facility would be tailored to the needs and circumstances of FCS. Options to increase the flexibility could include: better tailored program design and conditionality, floating tranches and accommodation of PPFs, shorter arrangements or longer maturities would be also available under the new facility. The design and monitoring of programs under the new facility, however, should follow the same standards as other PRGT-supported programs; and the facility would be open to all PRGT-eligible countries facing the special BOP need that would underly the new facility. The main advantage of this option, compared with those presented above, in particular option 2-C (shorter term programs) and option 3-A (longer maturities), would be to combine in one single facility the different improvements envisaged above.

47. Designing and establishing such a new facility under the PRGT would entail several challenges. It is very difficult (as explained above under option 3-A) to identify a BOP need that uniquely applies for FCS. The new facility under the PRGT would thus have to be open to all LICs facing the same special BOP needs, which would risk creating overlaps with existing facilities and may require a broader re-thinking of the current architecture of LIC facilities to prevent facility shopping. As for any option with longer maturities, the new facility would require substantial subsidy and loan resources, whose availability would depend on donors' willingness. Moreover, developing a new facility, which supports both short-term and long-term arrangements or aims to address various kinds of BoP problems, could complicate its design and implementation, and potentially cannibalize

the existing PRGT facilities, particularly the ECF. Creating a new facility would require consent from all 155 PRGT contributors.

Option 4-B: Establishing a new trust fund dedicated to FCS

48. Fund members could decide to establish a new trust fund dedicated to FCS (FCS-TF), with the IMF as trustee. Such trust would be financed exclusively by third party contributor resources and thus uniformity of treatment requirements would not apply. This would facilitate the establishment of facilities exclusively targeted to FCS (including also non-PRGT-eligible FCS), overcoming the problems identified above with a new facility under the PRGT. An FCS-TF could be explicitly designed to support the three objectives of the lending reform, i.e., better tailoring program design, increasing the flexibility of the toolkit, and adapting financial terms to FCS specificities. Also, a trust-based program option through the Fund would support the activities of the donor community in the most complex FCS cases, as it would provide additional monitoring, safeguards, impetus for key reforms, and a coherent macroeconomic strategy. It could thereby further catalyze bilateral donor funding and facilitate more regular and structured engagement with the Board.

49. A dedicated FCS-TF could support various financing options. In practice, an FCS-TF could be used to finance entirely a new FCS lending facility. Or it could provide top-up financing for on-track UCT-quality programs or UCT-standard SMPs, which would help mitigate credit risks to Fund resources, incentivize borrowers to stay on-track, and avoid facility shopping. Specific consideration for grants could in principle be given to address the situation of FCS that are precluded from Fund lending under the current framework (see Box 3). A new FCS trust could be designed to be small if it were limited to certain countries, or large if it were to cover all FCS (including in particular non-PRGT-eligible FCS). In the context of the SDR channeling and RST discussions, the option to provide financing support specifically to FCS was discussed but so far there has been limited support for such an option.

50. The establishment of an FCS-TF would, however, face significant challenges. Its feasibility would depend on donors' willingness to provide budgetary resources. While specific design features would be developed at a later stage if an FCS-TF is supported, options to mitigate credit risks for the donors would likely include: (i) carefully calibrated eligibility and qualification criteria for accessing the resources, with program support subject to conditionality and access limits; (ii) procedures for addressing overdue financial obligations to the trust; and (iii) financial buffers, including the establishment of a reserve account, financed by donor resources, to cover temporary arrears and credit losses.

Table 2. Summary of Potential Lending Reform Options

Options to better tailor program design and conditionality	
Option 1-A: Developing operational guidance for tailoring and streamlining conditionality to country-specific needs and implementation capacity	
Pros	Challenges
<ul style="list-style-type: none"> • Forthcoming updated GN will provide clearer operational guidance to enhance flexibility and parsimony in structural conditionality. • No changes to current lending architecture needed. • No additional resources necessary. 	<ul style="list-style-type: none"> • Does not provide greater flexibility. • Needs to strike the appropriate balance between general and operational guidance, between diversity of FCS situations and need for a common framework, and between policy principles and concrete examples.
Option 1-B: Using Country Engagement Strategies to help inform program design and conditionality for each FCS	
Pros	Challenges
<ul style="list-style-type: none"> • Better integrates Fund policy recommendations, CD, and financial support. • Promotes better sequencing and prioritization of structural reforms. • Provides better understanding of key challenges and potential constraints. • No changes to current lending architecture needed. • No additional resources necessary. 	<ul style="list-style-type: none"> • Does not provide greater flexibility. • Needs to accommodate the difference in objectives, level of details and time horizon of the CES and IMF program.
Option 1-C: Developing more robust macro frameworks and program targets and provide operational guidance	
Pros	Challenges
<ul style="list-style-type: none"> • Better tailors program design and conditional to country specificities. through more robust macro-frameworks and realistic pace of adjustment. • No changes to current lending architecture needed. • No additional resources necessary 	<ul style="list-style-type: none"> • Needs to strike a balance between less adjustment, more financing, and safeguards to Fund credit risks.

Table 2. Summary of Potential Lending Reform Options (continued)

Options to increase toolkit agility	
Option 2-A: Articulating more clearly and potentially reconsidering constraints to the concurrent use of SMPs and (repeated) emergency financing (RCF/RFI)	
Pros	Challenges
<ul style="list-style-type: none"> • Provide financial support for countries that are not capable of implement UCT-standard program while building track-record toward an UCT-quality engagement. 	<ul style="list-style-type: none"> • Policy changes to establish a window under emergency financing that is not for urgent BOP needs would entail fundamental change to the emergency financing instruments, requiring further staff analysis. • Modifications to the RCF to allow for its use in the absence of an urgent BoP need, requires broad membership support and consents from relevant PRGT subsidy and loan account contributors (total of 155 contributors) (footnote 23). • Cannot pre-commit subsequent RCF disbursement.
Option 2-B: Developing new operational guidance on Floating Tranches to clarify their use and to better integrate into UCT-quality conditionality	
Pros	Challenges
<ul style="list-style-type: none"> • By providing flexible deadlines, FTs can help promote ownership, and mitigate impact of uncertain structural reforms delaying reviews needed to keep macro stabilization on track. • No changes to current lending architecture needed. • No additional resources necessary. 	<ul style="list-style-type: none"> • Could complicate program design in cases where it is difficult to quantify BOP needs arising from specific policy reforms. • Additional concessional resources may be required to enhance incentives for specific reform topics.
Option 2-C: Allowing the option of a short-term UCT-quality program as a first step to address protracted BoP needs (through introduction of a new facility or lowering the minimum duration of ECFs)	
Pros	Challenges
<ul style="list-style-type: none"> • Helps initiate program engagement and implementing pressing policy measures in countries where it is not possible to commit to MT measures. • The short-term UCT facility to address protracted BoP problem would help establish groundwork for MT reforms. 	<ul style="list-style-type: none"> • A short-term ECF may require a change in relevant provisions of the PRGT Instrument regarding the current purpose of the ECF, in which case broad support by the Board and consents from relevant PRGT subsidy and loan account contributors would be need (footnote 27). and hence a more fundamental amendment in the structure of the LIC facilities architecture. • Creating a new PRGT facility would require individual consent from 155 PRGT subsidy and loan contributors and broad support by the Board.

Table 2. Summary of Potential Lending Reform Options (continued)

Options to better align financial terms to FCS financial capacity	
Option 3-A: Lengthening the maturity of instruments under the PRGT Fund lending	
Pros	Challenges
<ul style="list-style-type: none"> • Longer maturities would improve debt sustainability. 	<ul style="list-style-type: none"> • Requires identification of a new, special BOP need that is exclusively applicable to LIC FCS, which is technically difficult, and could raise uniformity of treatment concerns. • Requires broad membership support and/or consent. • Would reduce reserve coverage in the PRGT and would require additional funding would be required.
Option 3-B: Leveraging more the Fund's engagement to help the donor community raise grants	
Pros	Challenges
<ul style="list-style-type: none"> • Grants would limit exposure to super-senior IMF credit. • Additional donor support to FCS with debt sustainability concerns would be possible. 	<ul style="list-style-type: none"> • Provision of grants by donors is beyond the Fund's control.
Reform options for rethinking the current architecture	
Option 4-A: Creating a new FCS UCT financing facility under the PRGT with longer maturities	
Pros	Challenges
<ul style="list-style-type: none"> • Options 1A-C (more tailored and streamlined conditionality, and more extensive use of PPFs and CES) could be featured in standard program design. • More flexible program duration captures the same advantages as the new short-term facility (Option 2-C) and long maturity (Option 3-A) • Allow repeated use of programs to help address long-term nature of protracted BOP problems and fragility. 	<ul style="list-style-type: none"> • New facility may result in 'facility arbitrage' among PRGT eligible countries. • Heavy use of new facility (vs. ECF) would require more frequent/higher PRGT replenishments. • Requires broad membership support and/or consent. • Difficult to limit the eligibility to FCS only.

Table 2. Summary of Potential Lending Reform Options (concluded)

Option 4-B: Establishing a new trust fund dedicated to FCS	
Pros	Challenges
<ul style="list-style-type: none"> • Options 1A-C (more tailored and streamlined conditionality, and more extensive use of PPFs and CES) could be featured in standard program design. • Greater flexibility: program length can vary depending on BOP need defined. FTs (option 2-B) can also be used, and 'topped-up' using FCS trust fund resources. • Greater concessionality: longer maturities relative to non-FCS countries and/or grants could be considered. • Potential to provide financial assistance (e.g., grants) for FCS that are currently precluded from Fund lending, allowing for enhanced engagement with the donor community at large. • Resources would be carved-out specifically for FCS. 	<ul style="list-style-type: none"> • Putting in place a trust fund over the near term is difficult • Creation of trust fund would depend on donors' willingness to provide regular resources to the FCS trust fund. FCS trust fund would compete against other trust funds. • Multi-layered framework necessary to mitigate financial risks.

ISSUES FOR DISCUSSION

- A. Do Directors agree with staff’s diagnosis of the challenges in Fund lending to FCS?
- B. What are Directors’ views on the potential modifications to the FCS lending toolkit?
- C. Do Directors have preferences on the options for reform, striking an appropriate balance between the desirable and the achievable?
- D. Do Directors agree with the proposed Board engagement timeline?

Annex I. IMF Analytical List of FCS

Annex I Table 1. 2019 Fragile and Conflicted-Affected States

2019 Fragile and Conflict-Affected States ^{1/}						
Country	Avg. CPIA				Peace Building Mission 2/	Peace Keeping Mission 3/
	FY17-FY19	FY17	FY18	FY19		
AFR						
Burundi	2.98	3.07	2.98	2.91	..	..
Central African Republic	2.45	2.46	2.42	2.48	Y	..
Chad	2.73	2.78	2.74	2.66	..	..
Comoros	2.83	2.83	2.86	2.81	..	..
Congo, Dem. Rep.	2.92	3.00	2.92	2.83	..	Y
Congo, Rep.	2.85	3.00	2.85	2.7	..	..
Cote d'Ivoire	3.33	3.28	3.35	3.38	..	Y
Eritrea	1.88	1.94	1.85	1.85	..	..
Gambia, The	2.94	2.93	2.93	2.97	..	Y
Guinea	3.14	3.08	3.15	3.18	..	..
Guinea-Bissau	2.46	2.48	2.46	2.45	Y	..
Liberia	3.11	3.10	3.10	3.13	..	Y
Madagascar ^{4/}	3.22	3.14	3.23	3.28	..	..
Malawi	3.19	3.15	3.18	3.24	..	..
Mali	3.38	3.38	3.36	3.4	..	Y
Sao Tome and Principe	3.09	3.05	3.12	3.12	..	..
Sierra Leone ^{4/}	3.25	3.27	3.24	3.24	..	..
South Sudan	1.66	1.87	1.58	1.53	..	Y
Togo	3.04	2.98	3.03	3.13	..	..
Zimbabwe	2.79	2.86	2.72	2.78	..	..
Total AFR Countries	20					
APD						
Kiribati	2.96	2.95	2.95	2.99	..	..
Maldives	3.16	3.13	3.28	3.17	..	..
Marshall Islands	2.60	2.60	2.60	2.60	..	..
Micronesia, Fed. Sts.	2.76	2.78	2.75	2.75	..	..
Myanmar	3.05	3.08	3.08	3.00	..	..
Papua New Guinea	2.99	3.00	3.00	2.96	..	..
Solomon Islands	2.96	2.98	2.98	2.93	..	..
Timor-Leste	2.95	3.02	2.98	2.85	..	..
Tuvalu	2.87	2.86	2.86	2.90	..	..
Total APD Countries	9					
EUR						
Kosovo	3.55	3.53	3.57	3.57	..	Y
Total EUR Countries	1					
MCD						
Afghanistan	2.69	2.69	2.72	2.68	Y	..
Djibouti	2.97	2.97	2.97	2.97	..	..
Iraq	-	-	-	-	Y	..
Lebanon	-	-	-	-	Y	..
Libya	-	-	-	-	Y	..
Somalia	n.a.	n.a.	n.a.	n.a.	Y	..
Sudan	n.a.	n.a.	n.a.	n.a.	..	Y
Syria	n.a.	n.a.	n.a.	n.a.	..	..
Tajikistan	3.04	3.12	2.97	3.03	..	..
West Bank and Gaza	-	-	-	-	Y	..
Yemen, Rep.	2.37	2.61	2.38	2.11	..	..
Total MCD Countries	11					
WHD						
Haiti	2.88	2.90	2.88	2.88	..	Y
Total WHD Countries	1					
Total Countries	42					

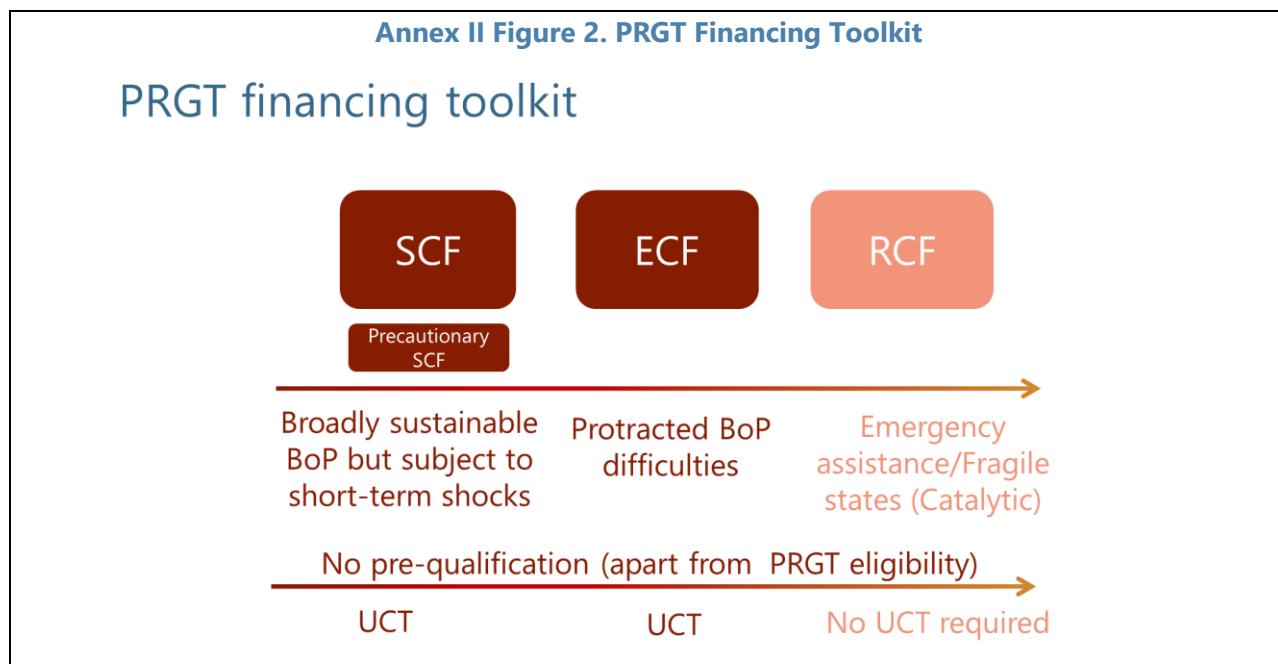
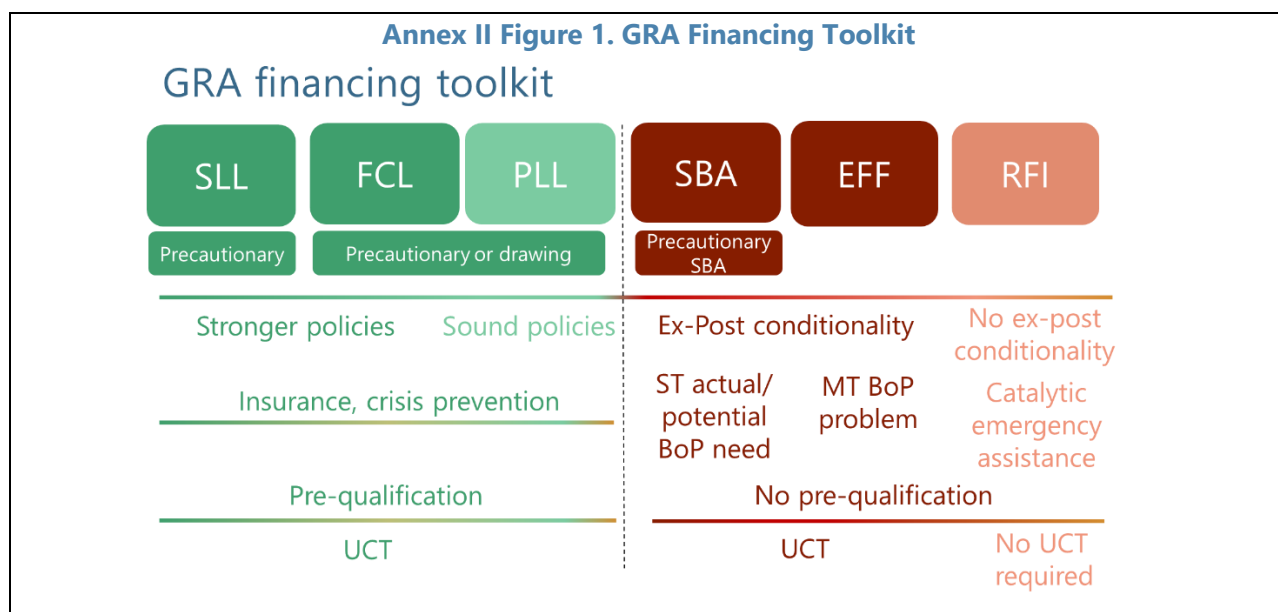
1/ The list of countries in fragile situations includes only IDA eligible countries with CPIA rating of 3.20 or less and countries/territories with the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years. It also includes Syria where no CPIA data is available due to conflict.

2/ Specifically defined as the presence of a UN and/or regional (eg: AU, EU, OAS) peace-building and political mission in this country in the last three years [sources: UN DPKO, AU, EU websites]

3/ Specifically defined as the presence of a UN and/or regional (eg: AU, EU, OAS, NATO) peace-keeping operation in this country in the last three years, with the exclusion of border monitoring operations [sources: UN DPKO, AU, EC, websites]

4/ Retained based on area department assessment

Annex II. GRA and PRGT Financing Toolkit and Terms



Annex II Table 1. Financial Terms of GRA and PRGT Facilities

Lending Instruments		Charges/Interest	Repayment terms (yrs)	Maturity (yrs)	Repurchase/Repayment
GRA	Stand-By Arrangements	<ul style="list-style-type: none"> • Basic rate of charge: market-determined SDR interest rate plus a margin set by Executive Board every 2 years (currently at 100bps). • Level-based surcharge of 200 bps on credit outstanding above 187.5 percent of quota • Time-based surcharge of 100 bps when outstanding credit remains above 187.5 percent of quota for more than 36 months (51 months for EFF). • Nonrefundable commitment fee (8bps) • Service charge (21 bps) 	3 ¼	5	Quarterly
	Extended Fund Facility		4 ½	10	Semi-annual
	Flexible Credit Line		3 ¼	5	Quarterly
	Precautionary and Liquidity Line				
	Rapid Financing Instrument				
	Short-term Liquidity Line		1		12 months
PRGT	Extended Credit Facility	0%	5 ½	10	Semi-annual
	Rapid Credit Facility				
	Standby Credit Facility*		4	8	

Annex III. Fund Lending Instruments Accessible to FCS Selected Features

1. IMF lending provides financing to help countries solve their BoP problems by giving them breathing room to implement needed adjustment policies. The lending instruments are tailored to different types of BoP needs (see text table). All IMF members are eligible to access the Fund’s resources in the GRA (on non-concessional terms), but eligible LICs are additionally access to concessional financial support through the PRGT.

Purpose	Facility	Financing	Duration	Conditionality
Present, prospective, or potential BoP need	SBA	GRA	Up to 3 years, but usually 12-18 months	Ex-post
	SCF	PRGT	1 to 3 years	
Protracted BoP need/medium-term assistance	EFF	GRA	Up to 4 years	Ex-post, with focus on structural reforms
	ECF	PRGT	3 to 4 years, extendable to 5 years	
Actual and urgent BoP need	RFI	GRA	Outright purchase	No Fund-supported program/ex-post conditionality, but prior actions possible
	RCF	PRGT	Outright disbursement	
Non-financial/signaling instruments	PSI	n/a	1 to 4 years, but extendable to 5 years	Ex-post
	PCI	n/a	6 months to 4 years	

2. Conditionality in its broad sense encompasses both the design of IMF-supported programs—that is, the underlying macroeconomic and structural policies—and the specific tools used to monitor progress toward achieving the goals outlined under the Fund-supported program. Fund-supported programs should be directed primarily towards (i) solving the member’s BoP problem without recourse to measures destructive of national or international prosperity and (ii) achieving medium-term external viability while fostering sustainable economic growth. The purpose of conditionality is to help members solve their BoP problems as well as to establish adequate safeguard for the use of Fund resources.

3. The conditionality standard of Fund support is distinguished by whether or not it meets the upper credit tranche (UCT) quality. UCT conditionality indicates policies of sufficient strength to qualify as safeguards for the use of Fund resources beyond the first 25 percent of quota.

Specifically, the member's program meeting UCT-conditionality standard would be designed to provide a substantial justification that its BoP problems are being addressed and resolved, and adequate confidence to the Fund that the improvements in resolving such BoP difficulties will allow the member to repay Fund resources by the time repayments fall due. All Fund arrangements, as well as the PSI and PCI, entail UCT-quality program engagement, while emergency financing (i.e. RCF and RFI) does not.

4. Additionally, Staff Monitored Programs (SMPs) can be initiated at members' requests.

SMPs involve monitoring by Fund staff of the authorities' implementation of an economic program based on understanding reached with Fund staff. SMPs help members establish a track record of policy implementation that can pave the way for an IMF arrangement or for the resumption of an arrangement that has gone off-track and, in some cases, for repeat use of emergency assistance. SMPs are normally used in cases where a country is not yet able to implement a UCT-quality program, for instance where limited institutional capacity, domestic fragility or instability, or the absence of financing assurances raise significant doubt about the member's capacity and/or commitment to implement a UCT-quality program, or where a country's Fund-supported program has gone off track and a track record is needed to provide assurances that the authorities have the capacity and commitment to achieve the program's objectives. The Fund does not provide financing under SMPs.

Annex IV. Programs Approvals

Annex IV Table 1. LIC FCS Programs Approved After January 1, 2010 and Completed Before December 31, 2019

Country	Program	Program Approval	Program Expiry	Program Completion
Maldives	SBA-ESF	2009	2012	Off-Track
Democratic Republic of the Congo	PRGF	2009	2012	Partially Completed
Malawi	ECF	2010	2013	Off-Track
Guinea-Bissau	ECF	2010	2013	Partially Completed
Solomon Islands	SCF	2010	2011	Completed
Sierra Leone	ECF	2010	2013	Partially Completed
Haiti	ECF	2010	2013	Completed
Yemen	ECF	2010	2013	Off-Track
Cote D'Ivoire	ECF	2011	2014	Completed
Afghanistan	ECF	2011	2014	Off-Track
Solomon Islands	SCF	2011	2012	Completed
Mali	ECF	2011	2014	Off-Track
Burundi	ECF	2012	2015	Partially Completed
Guinea	ECF	2012	2015	Completed
Kosovo	SBA	2012	2013	Partially Completed
Gambia, The	ECF	2012	2015	Off-Track
Central African Republic	ECF	2012	2015	Off-Track
Sao Tome and Principe	ECF	2012	2015	Partially Completed
Malawi	ECF	2012	2015	Completed
Liberia	ECF	2012	2015	Completed
Solomon Islands	ECF	2012	2015	Completed
Sierra Leone	ECF	2013	2016	Completed
Mali	ECF	2013	2016	Completed
Chad	ECF	2014	2017	Partially Completed
Yemen	ECF	2014	2017	Off-Track
Haiti	ECF	2015	2018	Off-Track
Guinea-Bissau	ECF	2015	2018	Partially Completed
Sao Tome and Principe	ECF	2015	2018	Partially Completed
Madagascar	ECF	2016	2019	Completed
Afghanistan	ECF	2016	2019	Completed
Central African Republic	ECF	2016	2019	Completed
Sierra Leone	ECF	2017	2020	Off-Track

Annex IV Table 2. Non-LIC FCS Programs Approved After January 1, 2010 and Completed Before December 31, 2019

Country	Program	Program Approval	Program Expiry	Program Completion
Iraq	SBA	2010	2012	Partially Completed
Kosovo	SBA	2010	2012	Off-Track
Kosovo	SBA	2012	2013	Partially Completed
Kosovo	SBA	2015	2017	Partially Completed
Iraq	SBA	2016	2019	Partially Completed

Annex IV Table 3. Non-FCS LIC Programs Approved After January 1, 2010 and Completed Before December 31, 2019

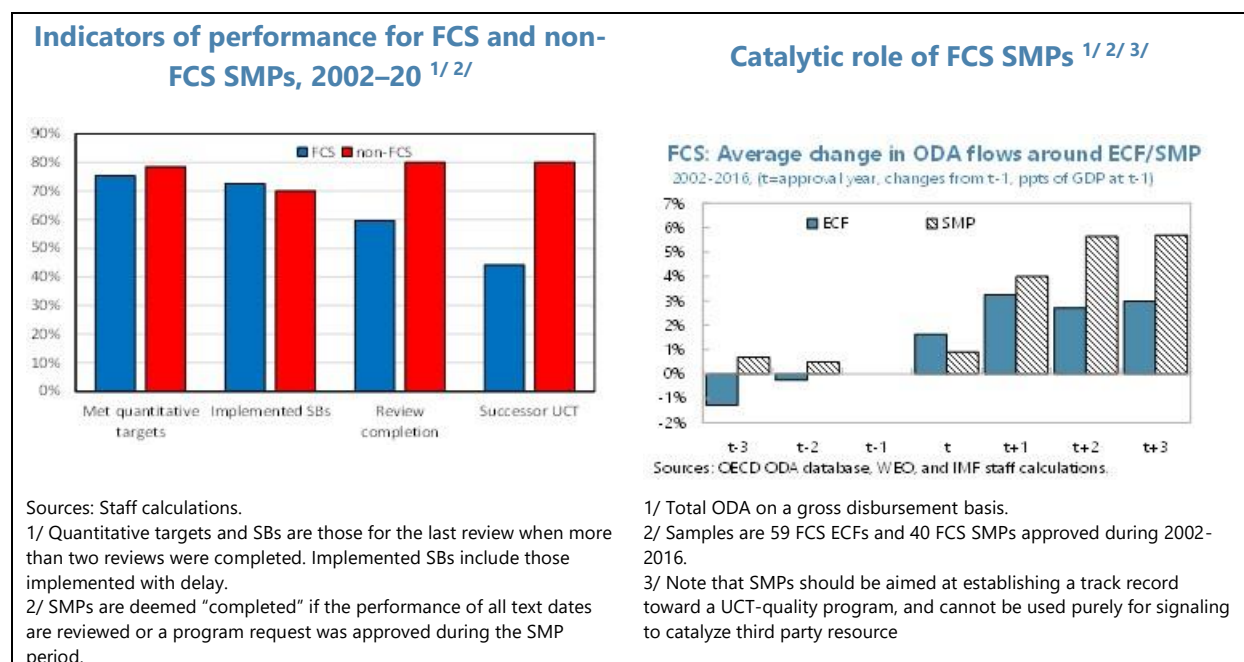
Country	Program	Program Approval	Program Expiry	Program Completion
Honduras	SBA-SCF	2010	2012	Partially Completed
Grenada	ECF	2010	2013	Off-Track
Cabo Verde	PSI	2010	2012	Completed
Benin	ECF	2010	2013	Completed
Lesotho	ECF	2010	2013	Completed
Mauritania	ECF	2010	2013	Completed
Mozambique	PSI	2010	2013	Completed
Senegal	PSI	2010	2013	Completed
Tanzania	PSI	2010	2013	Completed
Uganda	PSI	2010	2013	Completed
Burkina Faso	ECF	2010	2013	Completed
Moldova	ECF-EFF	2010	2013	Partially Completed
Kenya	ECF	2011	2014	Completed
Kyrgyz Republic	ECF	2011	2014	Completed
Bangladesh	ECF	2012	2015	Completed
Tanzania	SCF	2012	2014	Completed
Mozambique	PSI	2013	2016	Partially Completed
Uganda	PSI	2013	2016	Completed
Burkina Faso	ECF	2013	2016	Completed
Honduras	SBA-SCF	2014	2017	Completed
Grenada	ECF	2014	2017	Completed
Tanzania	PSI	2014	2017	Completed
Ghana	ECF	2015	2018	Completed
Kenya	SBA-SCF	2015	2016	Completed
Mozambique	SCF	2015	2017	Off-Track
Senegal	PSI	2015	2018	Partially Completed
Kyrgyz Republic	ECF	2015	2018	Partially Completed
Kenya	SBA-SCF	2016	2018	Off-Track
Moldova	ECF-EFF	2016	2019	Completed

Annex V. SMPs with FCS, 2002–2020

Country	Approval Date	Expiration Date	Off-tracked program before SMP (within 2 years)	Program after SMP (within 2 years)
Sao Tome & Principe	Jan-02	Dec-02	no	no
Sudan	Jan-02	Dec-02	no	no
Yemen, Republic of	Jul-02	Dec-02	no	no
Sudan	Jan-03	Dec-03	no	no
Haiti	Apr-03	Dec-03	no	no
Afghanistan	Mar-04	Dec-06	no	yes
Haiti	Apr-04	Sep-04	no	no
Sudan	Jan-05	Dec-05	no	no
Comoros	Jan-05	Dec-06	no	no
Guinea-Bissau	Apr-05	Dec-05	yes	no
Guinea	Apr-05	Mar-06	yes	yes
Djibouti	Jan-04	Dec-04	yes	no
Djibouti	Jul-05	Dec-05	yes	no
Gambia, The	Oct-05	Mar-06	yes	yes
Sudan	Jan-06	Dec-06	no	no
Liberia	Feb-06	Sep-06	no	yes
Congo, Dem. Rep. of	Apr-06	Dec-06	yes	no
Guinea-Bissau	Apr-06	Dec-06	no	no
Togo	Oct-06	Jun-07	no	yes
Liberia	Jan-07	Dec-07	no	yes
Congo, Republic of	Apr-07	Sep-07	no	yes
Congo, Dem. Rep. of	Apr-07	Dec-07	yes	yes
Sudan	Jul-07	Dec-08	no	no
Congo, Dem. Rep. of	Jan-08	Jun-08	yes	yes
Congo, Republic of	Jan-08	Jun-08	no	yes
Tajikistan	Jun-08	Dec-08	no	yes
Chad	Apr-09	Oct-09	yes	no
Sudan	Jun-09	Dec-10	no	no
Kosovo	Jun-11	Dec-11	no	yes
Guinea	Jun-11	Dec-11	yes	yes
Myanmar	Jan-13	Dec-13	no	no
Zimbabwe	Jun-13	Jun-14	no	no
Chad	Sep-13	Dec-13	no	yes
Sudan	Mar-14	Dec-14	no	no
Zimbabwe	Oct-14	Dec-15	no	no
Gambia, The	Apr-15	Dec-15	yes	no
Afghanistan	Jun-15	Dec-15	yes	yes
Madagascar	Nov-15	Mar-16	no	yes
Iraq	Jan-16	Dec-16	no	yes
Somalia	May-16	Apr-17	no	no
Comoros	Oct-16	Mar-17	no	no
Gambia, The	Jun-17	Sep-18	yes	no
Somalia	Jun-17	Apr-18	no	yes
Haiti	Jun-17	Dec-17	yes	no
Haiti	Feb-18	Aug-18	yes	no
Somalia	May-18	Apr-19	no	yes
Somalia	Aug-19	Mar-20	no	yes
Zimbabwe	May-19	Mar-20	no	no
Gambia, The	Apr-19	Dec-19	no	yes
Congo, Dem. Rep. of	Dec-19	May-20	no	yes
Papua New Guinea	Feb-20	Jun-21	no	no
Sudan	Jul-20	Jun-21	no	yes

Annex VI. Use of SMPs with FCS

1. FCS have been the dominant users of SMPs. Twenty three out of 28 countries that have used SMP during 2002–2020 are FCS, which account for around 90 percent of the total number of SMPs during the period (52 out of 57).



2. Though the observance of program targets is not significantly different between FCS and non-FCS SMPs, FCS's SMPs are less frequently followed by UCT-quality programs. 70–80 percent of quantitative targets and SBs were met for both FCS and non-FCS SMPs during 2002–20. However, FCS more often cannot complete SMPs than non-FCS and these programs are less likely to result in a successor UCT-quality program. In a few cases, SMP performance was assessed unsatisfactory due to missed or delayed key policy agenda (e.g., Zimbabwe 2019: FX and monetary reforms; Chad 2013: oil-related fiscal measures; and Liberia 2006: debt and governance strategies) albeit relatively high overall observance rates. Also, satisfactory SMP performance did not lead to UCT-quality programs as more steps were deemed necessary to resolve fundamental issues to implement an UCT-quality program (e.g., Gambia 2017: debt sustainability; Zimbabwe 2013, Sudan 2002 2003: arrears).

3. Consequently, FCS tend to repeat SMPs, instead of moving toward an UCT-quality program. One third of FCS SMPs in the sample were followed by another SMP, while many of them were extended to provide more time for policy implementation than originally planned. In the case of Somalia, four credible consecutive SMPs in 2016–20 helped catalyze donors financing support,

including to clear arrears with the IMF, World Bank, and AfDB, before reaching the decision point under the HIPC Initiative and entering its first IMF financing program in three decades in late March 2020.

4. Preliminary analysis shows that the implementation of SMPs leads to a gradual increase in the ODA for FCS, implying a catalytic effect of SMPs. The effect materializes upon approval and becomes larger in the later years in the case of FCS SMPs, while that for FCS ECFs peaks in the year after arrangement approval. However, the effect observed for FCS SMPs may capture the catalytic effect of Fund arrangements following SMPs when these arrangements are envisaged due to the use of SMPs. Also, SMPs are often used when IFIs lending is precluded, and thus the effect may capture the average trend for a country to re-engage in the international community.