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From: The Secretary
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Questions:	Mr. McGrew, SPR (ext. 30475) Ms. Gust, FIN (ext. 36573)

Review of Concessional Financing and Policies: Staff Proposals

A. Introduction

1. The Executive Board discussed possible reforms to the Fund’s policies on lending to low income countries (LICs) and the associated financing challenges for the Poverty Reduction and Growth Trust on April 1st, 2021.¹ The discussion was informed by two linked papers on lending policy options (FO/DIS/21/44) and on PRGT financing options (FO/DIS/21/45).

2. Key policy reform options that featured in the discussion included:

- changes to key parameters in the PRGT lending facilities, including limits on access to facilities, loan maturities, and the conditions under which PRGT-eligible countries are required to blend access to GRA and PRGT facilities and cannot receive Fund financing exclusively from the PRGT;²
- large increases in average access levels of financing arrangements for LICs, consistent with the Fund supporting macroeconomic programs with expanded fiscal support for pandemic recovery and development programs while providing a higher share of the exceptional financing needs of programs than has been typical in the past;³
- the potential role for trust funds in supplementing the financial support provided to LICs through the regular lending facilities (PRGT and GRA), and
- the case for framing IMF engagement with poorer (non-blend) LICs in a medium-term time frame, supporting efforts to tackle the typically protracted balance of payments needs of such countries.

3. The analysis of PRGT finances highlighted several issues:

- An injection of subsidy resources is needed to restore PRGT financial self-sustainability, reflecting the exceptional levels of emergency financing recorded in 2020 and the expected lending to be provided over the next few years as countries transition to multiyear arrangements.
- Increases in access limits and in average program access levels would yield substantially higher lending levels during the crisis period and beyond. Depending on the desired scale of the

¹ The terms “LICs” and “PRGT-eligible countries” are used interchangeably in this paper.

² Blended access to resources occurs when a LIC borrows simultaneously through the PRGT and GRA; the policies determining when countries are required to blend are discussed on pages 8–14 of this note. The use of PRGT resources alongside resources from the GRA is not imposed on the member, but given the financial benefits from borrowing on concessional terms, staff advises members that meet the blending presumption to seek financing through a blend of PRGT and GRA resources.

³ The lending scenarios examined entailed a (more than) doubling or trebling of average access levels in programs, with the bulk of members requesting program assistance.

longer-term PRGT lending capacity, subsidy needs could potentially approach up to SDR 10 billion.

- Two strategies to meet PRGT subsidy needs were outlined—one involving a mix of bilateral fundraising, temporary suspension of GRA reimbursement, and use of Fund internal resources to resolve the PRGT’s long-term funding needs now, a second involving a two-stage approach with i) initial actions involving bilateral fundraising and suspension of GRA reimbursement to preserve the endowment during the crisis period and ii) a post-crisis assessment of needs and of an appropriate long-term lending envelope with accompanying decisions on how to ensure PRGT financial self-sustainability, potentially including the use of the Fund’s internal resources.
- Current estimates of PRGT financing needs are subject to exceptional uncertainty (for any given policies), influenced by average crisis program size, the share of members seeking crisis support, and average lending levels/needs in the post-crisis years (likely affected by crisis lending levels).

4. Directors’ views on the various features of the proposals differed significantly, but some elements commanded significant support and/or interest in further exploration.

Specifically, there was substantial support for higher limits on access to PRGT resources that would give the Fund the flexibility to support LICs with more concessional financing during the pandemic on a case by case basis,⁴ provided that adequate safeguards were in place, in particular to manage risks to debt sustainability and capacity to repay the Fund. There was also interest in seeing further work undertaken on reconsidering blending rules, on the potential role of trust funds in supporting Fund objectives, and on grounding Fund support for poorer LICs in a medium-term time frame employing repeat arrangements as warranted. Finally, Directors in the main favored the suggested two-stage approach to addressing PRGT finances, not least given the elevated uncertainty regarding the resource envelope needed.

5. Staff sees scope for reaching broad-based Board support for a package of reform measures in the near-term, with other parts of this work being taken forward in separate work-streams that will likely take more time.

- This paper examines a set of reforms relating to access limits and blending policies, accompanied by a financing package involving a medium-term fund-raising effort to finance scaled-up crisis lending while preserving an adequate PRGT resource envelope, with a lasting solution to PRGT self-sustainability being revisited in a post-crisis review of concessional financing policies and needs in 2024 or 2025.

⁴ The limits on access referred to here are those set in the “2018–19 Review of Facilities for Low-Income Countries-Reform Proposals” (SM/19/100, May 6, 2019). Limits and sub-limits have been increased on a temporary basis since the onset of the crisis, most recently on March 19, 2021: see “Temporary Extensions and Modifications of Access Limits in the Fund’s Lending Facilities” (SM/21/33). All temporary changes to access limits are expected to be reviewed after the 2021 Annual Meetings.

- Work on the potential role of new trust funds in complementing use of Fund lending instruments is being carried forward in a separate work-stream, given extra impetus by the interest in creating mechanisms for members with ample foreign reserves to make use of their SDRs.
- Work on developing a medium-term approach to Fund engagement with countries confronting deep-rooted economic challenges is already underway in the work-stream on enhancing Fund engagement in fragile and conflict-affected states (FCS), which can be drawn on further to apply to work on poorer LICs, typically characterized by structurally weak state capacity.⁵

6. The remainder of this paper is divided into three parts, the first covering proposed reforms to access policies and associated safeguards, the second discussing possible changes to the blending rules, and the third analyzing financing needs and identifying the proposed funding strategy, followed by “Issues for Discussion.”

B. Proposed Changes to PRGT Access Limits and Associated Safeguards⁶

7. The current limits on normal access to PRGT resources (100/300 percent of quota) were set at the conclusion of the 2018–19 Review of Facilities for LICs (SM/19/100, May 6, 2019).⁷

The limits were set at levels assessed to be consistent with maintaining the long-term annual lending capacity of the PRGT at SDR 1.25 billion per annum. This approach has been overtaken by events, with the pandemic shock contributing to PRGT [disbursements] of some SDR [6.8] billion in 2020 and to projected lending levels expected to exceed pre-crisis target levels by very large margins in the next few years.

8. There is a strong case for raising limits on access to PRGT resources given the large projected external financing needs of many LICs in the coming years.⁸ This

would provide LICs with greater access to low-cost-financing from the Fund and would limit the number of LICs that are required to access the GRA. There are a substantial number of countries with credit outstanding to the PRGT in excess of 150 percent of quota, many of whom can be expected to request sizeable UCT-quality arrangements as they seek to navigate their way through the pandemic period and its immediate aftermath (see Text Table). Absent changes to the PRGT access limits (or extension of temporary increases to these limits beyond end-June 2021), these

PRGT Credit Outstanding > 150 Percent of Quota; Non-Presumed Blenders (As of end April 2021)		
Country	% of Quota	% of GDP
Chad	295%	5%
Madagascar	241%	6%
Mali	223%	3%
Burkina Faso	213%	2%
Malawi	211%	5%
Niger	208%	2%
Mauritania	193%	4%
Central African Republic	192%	11%
Sierra Leone	180%	12%
Grenada	178%	4%
Rwanda	169%	4%
Togo	169%	4%
Guinea	160%	3%
Mozambique	158%	4%

⁵ The Board is to be briefed on the progress made in the FCS work-stream in early-July.

⁶ See Annex 1 for a description of important features of the PRGT lending facilities and the rules governing access.

⁷ The notation “A/B percent of quota” refers to annual and cumulative access limits, respectively. To simplify the exposition, the discussion focuses in the main on the “permanent” (non-transitory) access limits, which are reviewed on at regular intervals, currently on a five-year cycle.

⁸ See “Macroeconomic Developments and Prospects in Low-Income Countries—2021” (SM/21/31, March 12, 2021).

countries, among the poorest of the Fund’s LIC members, will likely be required to request financing from GRA instruments, which would be less appropriate for their needs.

9. Staff propose the following set of principles to guide the setting of access limits:⁹

- *Non-blend countries requesting access to PRGT resources at levels viewed as “normal access” for the wider membership should be able to borrow the entire amount from the PRGT.* Normal access here is access that does not trigger application of the exceptional access (EA) framework in the GRA or the Policy Safeguards for High Combined Credit to GRA-PRGT Resources (PS-HCC).¹⁰
- *Poorer LICs are eligible for access to PRGT resources in excess of normal access limits: this access would no longer be subject to hard caps, but the proposed Fund arrangements must meet the PRGT exceptional access (EA) criteria.*
- *LICs that meet the income criterion for blending, which is based on the IDA operational cutoff, are not eligible for access to PRGT resources above the normal access limits.*

10. These principles entail important departures from current concessional lending rules, where i) access limits are set at levels that constrain demand for PRGT resources to align with the available PRGT resource envelope and ii) there are hard caps on all countries’ access to concessional resources.¹¹ They also involve significant continuities: only poorer LICs are eligible for PRGT EA, while access levels for all financing requests continue to be based on the usual criteria of balance of payments needs, strength of the proposed program, capacity to repay the Fund (including debt sustainability), Fund credit outstanding, and prior track record of use of Fund resources.

11. Applying these principles in the current context yields the proposals on access limits outlined in Box 1: the proposals take account of the temporary changes to access limits currently in place.¹² Going forward, non-transitory changes to PRGT access limits would be taken up in the context of reviews of LIC facilities, given the need to align the entire package of PRGT policies with financial self-sustainability of the PRGT over time.¹³ Access limits (which are expressed as a share of quota) would also be revisited in the context of general quota increases.

⁹ The discussion here focuses on *non-blend countries*—defined here as countries that are not presumed blenders and thus not required to combine any request for PRGT resources with a corresponding request for GRA resources (see Annex 1 for elaboration). Access limits for *blend countries* are discussed in the next section of this paper.

¹⁰ The PS-HCC were introduced in September 2020: see “Policy Safeguards for Countries Seeking Access to Fund Financial Support that would Lead to High Levels of Combined GRA-PRGT Exposure” (SM/20/137, August 17, 2020).

¹¹ How these principles can be reconciled with PRGT financial self-sustainability over the medium- to longer term will need to be examined in the context of the post-crisis LIC facilities review and the associated “second stage” assessment of PRGT financing needs.

¹² The proposed new limits would apply to all new requests for financing and augmentation of access under existing arrangements: see SM/21/33 footnote 22 for additional details.

¹³ In particular, changes to the thresholds triggering application of the EA framework in the GRA or the PS-HCC would not have an impact on PRGT access limits until the next review of LIC facilities.

Box 1. PRGT Access Limits—Staff Proposals

Background

The GRA exceptional access (EA) framework applies to all requests for financing from the GRA that exceed threshold levels for annual and cumulative access. The threshold levels were set at 145/435 percent of quota in February 2016.¹ The threshold level for annual access was increased on a temporary basis to 245 percent of quota in July 2020; this temporary increase is set to expire at end-2021, when the threshold would revert to 145 percent.²

Policy safeguards for countries seeking financial support from the Fund involving high levels of combined GRA-PRGT exposure were introduced in September 2020.³ The threshold levels for combined exposure that trigger application of these safeguards are the same as those that trigger application of the EA framework in the GRA—currently 245/435 percent of quota, with the annual threshold set to decline to 145 percent of quota at end-December 2021.

Normal access to PRGT resources

Staff propose that the limits on normal access to the PRGT be set at 145/435 percent of quota, with the limit on annual access temporarily increased to 245 percent through end-December 2021. The limits on normal access to the PRGT were temporarily increased from 100/300 to 245/435 percent of quota in March 2021, with the temporary increases set to expire at end-June 2021. The staff proposal implies that:

- the limit on normal cumulative access would continue at 435 percent of quota until the next full review of LIC facilities, expected to be conducted in 2024–25; and
- the limit on normal annual access would continue at 245 percent of quota until end-2021, after which it would decline to 145 percent of quota until the next full review of LIC facilities.

Exceptional access to PRGT resources

LICs that meet the relevant eligibility criteria can request EA (access above the normal limits) to PRGT resources (see Annex 2). Eligibility is currently limited to countries that have not had sustained past access to international financial markets⁴ and have income at or below the prevailing operational cutoff for assistance from IDA. Available access is currently subject to a hard cap of 33.3/100 percent of quota on top of the normal access limits. The staff proposal is that:

- A country is eligible for PRGT EA only if it does not meet the proposed income threshold for blending (see below). It will not be disqualified from EA on the basis of market access.
- Access to PRGT resources for countries eligible for EA is not subject to hard caps, provided that a financing request that exceeds the normal access limits meets the PRGT EA criteria.

¹ The thresholds determining EA under the GRA were set in February 2016: see “Review of Access Limits and Surcharge Policies” (SM/16/10, March 29, 2016).

² All temporary changes to access limits introduced since the beginning of the pandemic are expected to be reviewed after the 2021 Annual Meetings.

³ See SM/20/137.

⁴ Countries with per capita GNI below 80 percent of the IDA operational cutoff are not precluded from EA on the basis of market access.

Norms

12. Access norms have been a feature of PRGT facilities design since the overhaul of the LIC facilities architecture in 2010. Norms have played a nuanced role in influencing access levels in PRGT arrangements: they are neither ceilings nor floors to access and should be not viewed as an entitlement, but rather play a useful guiding role in setting access in cases where it is difficult to accurately determine the balance of payments need.¹⁴ This role was particularly useful in the context of repeated arrangements with LICs making sustained progress in addressing protracted balance of payments needs, as distinct from facing severe and immediate balance of payment needs triggered by shocks. Even prior to the onset of the pandemic, the influence of norms on access levels had declined, as many countries sought to handle large adverse commodity price shocks or to advance reform programs with support from Fund programs with access levels well above the relevant norms.

13. Under the current system, access norms are linked to the initial stock of credit outstanding: 120 percent of quota for a 3-year ECF arrangement when credit outstanding is below 100 percent of quota, 75 percent of quota when credit is between 100 and 200 percent of quota, and undefined if the credit exceeds 200 percent of quota.¹⁵ Past practice in reviews has been to increase these parameters (access level and associated credit stock) in line with the increase in normal PRGT access limits (45 percent). The basis for differentiated norms—to tilt the use of scarce resources towards countries that have made less use of them—does not fit well with current circumstances, where the pandemic has produced large and diverse financing needs across countries. Staff sees two options as potentially appropriate for the current juncture:

- *Simplification:* the access norm for a three-year ECF arrangement could be set at 145 percent of quota, independent of the stock of credit outstanding (i.e., one-third of the cumulative access limit) pending a full review of the role of norms at the next LIC facilities review.¹⁶
- *Suspension:* application of the norms could be suspended until the next facilities review, when their role in the PRGT facilities architecture can be reassessed in light of the borrowing experience during the pandemic crisis and recovery period.

On balance, staff favors the first option, leaving more fundamental changes to the next review.

Safeguards

14. Non-blend countries that are currently EA-eligible and request access to PRGT resources in excess of the EA thresholds must meet the PRGT EA criteria. Increasing the PRGT

¹⁴ See “Financing for Development: Enhancing the Financial Safety Net for Developing Countries—Further Considerations” (SM/16/199, October 24, 2016).

¹⁵ In such cases access is guided by consideration of the cumulative access limit, the expectation of future need for Fund support and the repayment schedule.

¹⁶ Increases of 45 percent to the access norm for low credit outstanding (120 percent of quota) and higher credit outstanding (75 percent) would yield an unweighted average of 141.4 percent, rounded to 145 percent of quota.

normal access levels on a permanent basis to 145/435 percent of quota would allow countries to tap access in the 100/300 to 145/435 range without having to meet these criteria.

15. The EA thresholds are only one element of the Fund’s multi-layered framework for risk mitigation, with program design and case-by-case assessment of access needs informed by the standard access policy criteria (see above) playing key roles. In addition to these risk mitigation measures and to provide further assurances in regards to program focus on debt vulnerabilities and capacity to repay, the Fund adopted new safeguards in SM/21/33 alongside the (temporary) increases in PRGT access limits, including:¹⁷ i) requirements on disclosure and analysis of debt composition and dynamics in staff reports, building on the disclosure requirements in the newly-modified Debt Limits Policy (DLP), and ii) a requirement, in cases of countries at high risk of/in debt distress, that program objectives include the achievement of a concrete reduction in debt vulnerabilities over the course of the program and beyond. *It is proposed that these safeguards remain in place until the next full review of LIC facilities.*

Procedural Safeguards

16. The PRGT lending framework has high access procedural safeguards, which are applied when a financing request entails proposed access such that i) access to PRGT resources over any 36-month period would exceed 180 percent of quota (“flow trigger”), or ii) aggregate exposure to the PRGT, net of repayments, would exceed 225 percent (“stock trigger”).

17. Given the impact of the wave of pandemic-linked lending in 2020, these triggers were modified on March 19, 2021 (SM/21/33) as follows:

- With the majority of non-blend countries having obtained exceptional emergency financing in the first months of the pandemic, the flow trigger was set at 240 percent of quota through end-2023, by which time all the financing provided in response to the initial shock would have dropped out of the “36 month” calculation.
- With many countries already having exposure to the PRGT close to (or above) 225 percent of quota, the stock trigger was increased to 300 percent of quota through June 30, 2021 to avoid triggering the procedural safeguards in cases involving modest new access.

18. It is proposed that these flow and stock triggers remain at these levels and be reviewed at the next full review of LIC facilities. With average program size in the coming years projected to be substantially higher than pre-COVID levels (see below), the case for returning to the pre-COVID flow trigger after end-2023 is not compelling. Similarly, with exposure to the PRGT expected to increase for the majority of borrowers over the next few years, there is a strong case for maintaining

¹⁷ See SM/21/33, paragraph 46.

the stock trigger at 300 percent to avoid triggering procedural safeguards in cases involving modest levels of new access.¹⁸

19. The case for maintaining these procedural safeguards for access to PRGT resources over the longer term could be re-examined in the next comprehensive review of LIC facilities.

These safeguards do not feature in requests for access to GRA resources.

Exceptional Access Criteria

20. There are currently two separate sets of standards that may apply to LICs requesting levels of access to Fund resources in excess of the 145/435 percent of quota limits: the PRGT EA criteria and the Policy Safeguards for requests for High Combined Credit from GRA and PRGT resources. The two are closely related but not identical; the PS-HCC conditions sought to adapt the standards specified in the GRA EA criteria to accommodate distinctive features of LICs and of the LIC debt sustainability framework.

21. To simplify the policy framework governing exceptional access requests involving PRGT resources, it is proposed that the PRGT EA criteria be modified to align them with the PS-HCC conditions specified in SM/20/137, with one exception. As noted above, countries would be eligible for PRGT EA only if they do not meet the income threshold for blending at the time the EA request is formally considered by the Board: in all other respects, the language of the PRGT EA criteria and the PS-HCC would be identical, as illustrated in Annex 2.

C. Proposed Changes to Blending Policies

22. PRGT-eligible countries divide into two groups: i) blend countries (shorthand for "presumed blenders," also denoted PBs), who are expected to access Fund support through a combination of PRGT and GRA resources and ii) non-blend countries, who can access PRGT resources up to the relevant access limits, being required to tap GRA resources only if their financing requests exceed these limits. Countries are expected to shift from non-blend to blend status as income per capita levels rise and/or access to capital markets increases, and from blend status to graduation from PRGT eligibility as rising income levels and/or expanded market access reach threshold levels. Moving from non-blend to blend status has significant implications for a LIC, with Fund financial support now provided on less concessional terms and needing to meet the policy requirements of the GRA as well as the PRGT. The blending requirement also has important implications for PRGT financing: limiting PB countries' access to PRGT resources preserves scarce concessional resources for poorer/more vulnerable LICs.

23. As input to the discussions on April 1, staff flagged areas where the rules governing blending policies could usefully be simplified or strengthened and also proposed

¹⁸ Retaining the stock trigger at 300 percent of quota has the separate merit of ensuring that all financing requests that would previously have triggered the PRGT EA criteria because of the high level of cumulative access to PRGT credit would be subject to closer consultation with and scrutiny from the Executive Board.

consideration of a change in the lending architecture to source all borrowing by PRGT-eligible countries from the PRGT (FO/DIS/21/44). We consider these two topics in sequence.

Simplified Blending Rules

24. The rules on blending are outlined in Box 2.¹⁹ PB status is determined by GNI per capita, access to international financial markets, and severity of debt vulnerabilities. In broad-brush terms, LICs with GNI per capita above the IDA operational cutoff (currently \$1,185) or with access to international financial markets and income above 80 percent of the cutoff are PBs if debt vulnerabilities are assessed to be contained (low or moderate risk of debt distress); countries assessed to be at high risk of debt distress that meet income and market access criteria (including access on a forward looking basis) are also deemed to be PBs. (See Annex 3 for a list of current PBs.)

25. Staff sees a strong case for targeted reforms to the blending framework to make it both more robust and less complex:

- *Robustness of blending status.* Countries can flip back and forth too easily between blend and non-blend status, in a manner inconsistent with the important implications of the shift to blend status for a country and that can also create operational difficulties.²⁰
 - *Income threshold:* A low/moderate debt risk country can move to blend status following a modest increase in GNI per capita above the IDA cutoff, and then revert back to non-blend status with a modest decline in GNI per capita (or an upward shift in the IDA cutoff, which moves modestly from year to year).²¹ A request for an arrangement in year 1 would have to be a blend; a request the following year could involve only PRGT access.
 - *Market access threshold:* Countries at high risk of debt distress with income above the IDA cutoff and substantial past market access are treated as PBs if they are assessed to have prospective market access. Assessing prospective market access requires judgment at the time of a financing request; this will move in line with significant shifts in market sentiment. Thus, Kenya was viewed as a non-blend case when it asked for emergency financing in May 2020 but as a PB when it requested Fund financing in April 2021.²²
- *Complexity.* The blending rules have become quite complex over time (as illustrated in Box 2), impairing the visibility of key principles in some areas. For example, access to PRGT resources in a

¹⁹ All IMF members can access GRA resources under the same conditions. Classification as a blend country does not affect GRA access; rather, it imposes restrictions on access to the PRGT.

²⁰ For example, consider the situation of a country with a blended ECF/EFF arrangement in place that reverts from blend to non-blend status with release of new GNI data): should the EFF arrangement now be replaced with an augmented ECF?

²¹ For example, the Kyrgyz Republic moved to blend status in July 2019, based on 2018 GNI per capita; GNI per capita had also exceeded the IDA operational cutoff in 2014 but fell below it in 2015–17.

²² Similarly, Ghana was viewed as a non-blend case when it requested emergency financing in April 2020, but would now likely be treated as a PB given its large dollar sovereign bond issue in late-March 2021.

blended arrangement is guided by the 1:2 ratio on the PRGT-GRA mix (1:1 prior to July 2015)—but this is capped at the applicable norm for an arrangement, which can be i) 120 percent of quota, ii) 75 percent, or iii) undefined, depending on the initial level of PRGT credit outstanding (see Box 2, footnote 3). A good case can be made for simplifying these rules to allow full operation of the 1:2 principle in situations of normal access, as outlined below.

26. Reforms of the blending rules are proposed in three areas: a) the income criterion for blending, b) the impact of financial market access and debt vulnerabilities on blend status, and c) the mix of GRA and PRGT resources applied in blended arrangements.

27. The income criterion for blending would operate as follows:

- Countries are deemed to meet the income threshold for blending when GNI per capita has exceeded the IDA operational cutoff by at least 5 percent for two consecutive years.
- Having met the income threshold, the country continues to meet it provided that income per capita does not fall below 95 percent of the IDA operational cutoff: should income per capita fall below this level, the country no longer meets the income threshold.
- Countries that do not meet the income threshold for blending are not required to blend, irrespective of market access.

28. This approach would substantially reduce the likelihood of a premature/late-reversed shift to blend status, by raising the standard for meeting the income criterion and reducing the income level at which blend status would be lost. This asymmetry between the income threshold for achieving blending status and the threshold for re-entry to blending also features in the income criterion for PRGT-eligibility and for similar reasons—to support robust (but not fully irreversible) graduation from PRGT eligibility. Specifying that countries who do not meet the income criterion are not required to blend simplifies the blending rules by eliminating situations where countries with income below the IDA cutoff must blend if they meet a market access criterion: the only country affected by this change is Tanzania, which would no longer be required to blend.²³

29. Access to international financial markets would influence blend status as follows:

- Countries that meet the income criterion for blending are required to blend unless they face serious challenges in accessing international financial markets.
- Countries are deemed to face such serious challenges when they are i) in debt distress or ii) are at high risk of debt distress and either a) have had limited past access to these markets or are small/micro states as defined in the PRGT eligibility framework.

²³ This simplification would also improve consistency across instruments for supporting LICs: Tanzania is currently required to blend and is not eligible for PRGT EA, but is eligible for assistance from the CCRT (for which some 20 non-blend countries are not eligible). Tanzania's 2019 income per capita was 91 percent of the IDA cutoff and is likely to have fallen in 2020.

- Countries are assessed to have had limited past access to international financial markets if they do not meet the current criterion of “durable and substantial access to international financial markets” as defined in the PRGT eligibility framework.²⁴

30. This set of proposals offers a simple intuitive approach that delivers a more robust determination of blend status than is currently the case. It would remove the role of prospective market access in determining blend status (currently of relevance for countries at high risk of debt distress), thereby eliminating a difficult judgment call that shifts with market sentiment and a country’s borrowing plans. It maintains the principle that countries in debt distress are not expected to blend. It makes the reasonable assumption that countries at high risk of debt distress with little prior access to international financial markets should not be viewed as currently having significant access; and it recognizes that small/micro states face particular challenges in accessing international financial markets given scale effects (e.g., bond issues typically have to be of substantial size to cover fixed transactions costs and ensure sufficient trading liquidity).²⁵

31. The formula for determining the mix of PRGT and GRA resources received by blend countries (PBs) would be as follows:

- The funding mix made available to a blend country would follow the 1:2 ratio, with PRGT access capped at 145 percent of quota.

A blend country requesting “normal access” to Fund resources (i.e., combined access not exceeding 145/435 percent of quota) would receive the 1:2 mix: a country seeking exceptional access (i.e., combined access exceeding these thresholds) would have PRGT access capped at 145 percent of quota. Access to PRGT credit would also be subject to the limit on normal cumulative access to the PRGT of 435 percent (a situation that is very unlikely to occur).

²⁴ This criterion is met if the country has issued or guaranteed eligible external debt in at least three out of the past five years in a cumulative amount equivalent to at least 50 percent of its quota.

²⁵ The exception for small/micro-states affects Cabo Verde, Dominica, and Maldives, all of which are at high risk of debt distress but meet the criterion of substantial past market access. The specification of market access, which also plays an important role in driving PRGT graduation decisions, will likely be subject to further analysis during the upcoming review of PRGT eligibility, due at the Board in Q1 2022.

Box 2. Blending Policy

A. Blending Rules. PRGT-eligible countries are presumed to blend (achieve PB status) when:

- For countries assessed to be at low or moderate risk of debt distress, blending is presumed if either (i) per capita income is above 100 percent of the International Development Association (IDA) operational cutoff; **or** (ii) the country has sustained past and prospective access to international financial markets and a per capita income that exceeds 80 percent of the IDA operational cutoff.¹ The criterion for sustained past market access in such cases would be met if the country has issued or guaranteed eligible external debt during at least two of the past five years in a cumulative amount equivalent to at least 25 percent of the member's quota. The criterion for prospective market access in such cases is assumed to be met based on i) established past market access and ii) limited debt vulnerabilities, as evidenced by a rating of low or moderate risk of debt distress.
- For countries at high risk of debt distress, but not in debt distress, blending is presumed where (i) per capita income is above 100 percent of the IDA operational cutoff; (ii) the country has issued or guaranteed eligible external debt in at least three out of the past five years in a cumulative amount equivalent to at least 50 percent of its quota; and (iii) the country has prospective market access. The assessment of prospective market access in such cases would require judgment based on such factors as the evolution of debt vulnerabilities in the context of the program DSA, the evolution of sovereign spreads and credit ratings over time, program assumptions on commercial financing, and the scale and evolution of nonresident holdings of domestic-currency debt. The quality of public debt data – including coverage of public sector entities outside the central government and of publicly guaranteed debt, and transparency on terms and conditions – would also be an important factor in the assessment, given the threat to prospective market access from any significant debt surprises.²

B. Access limits. When countries are presumed to blend, combined access to GRA and PRGT resources under the financing request is determined on the basis of the standard access criteria (see ¶10 above), implying that total access should be comparable across country cases with similar balance of payments needs, program strength, capacity to repay, and level of outstanding Fund credit, irrespective of whether the Fund assistance comes in the form of blended or PRGT-only resources. The blending rules stipulate a 1:2 mix of PRGT and GRA resources, with access to PRGT resources capped at the norm³ (or equivalent) applicable to unblended arrangements. The cap is a hard limit on access to PRGT resources under the arrangements.

¹ Accessing international financial markets refers to the issuance or guarantee by a public debtor of external bonds in international markets or disbursements under external commercial loans contracted or guaranteed by a public debtor in such markets: see “Eligibility to Use the Fund’s Facilities for Concessional Financing, 2019” (SM/20/27, January 22, 2020). The IMF’s blending policies are set forth in the following: SU/20/26, SU/19/71, BUFF/09/131.

² The potential for countries at high risk of debt distress to be classified as PBs was introduced in 2019 in the context of the 2018-19 Review of Facilities for Low-Income Countries: the reform was motivated by the observance of large-scale issuance of debt on international financial markets by countries at high risk of debt distress.

³ High access norms (120 percent of quota for a 3-year ECF) apply if PRGT credit outstanding is less than 100 percent of quota. Low access norms (75 percent of quota) apply if PRGT credit outstanding is between 100 and 200 percent of quota. Norms are not applicable if PRGT credit outstanding > 200 percent of quota. In such cases, access is guided by consideration of the cumulative access limit of 300 percent of quota under PRGT facilities (400 percent of quota in exceptional access cases), the expectation of future need for Fund support, and the repayment schedule.

Blending: An Alternative Approach

32. Executive Directors requested that staff further explore the option of “all-PRGT” financing terms for presumed blenders. As noted in FO/DIS/21/44 and FO/DIS/21/45, such a reform could save PRGT subsidy resources, although it would also significantly boost total PRGT credit outstanding and thus lower reserve coverage.

33. Blending ensures that LICs that have made/are making substantial advances in terms of income levels and/or access to international capital markets face an intermediate stage involving hardened (less concessional) lending terms before they eventually graduate from eligibility for concessional financing. This is achieved by having countries that meet blending rules access a mix of PRGT and GRA resources—with the shift in much of the country’s financial support from the Fund from the PRGT to the GRA conserving scarce concessional resources for use by poorer countries.

34. These goals could also be achieved by having countries that meet blending requirements borrow entirely from the PRGT, but at a different interest rate to that faced by non-blend countries. Non-blend countries would borrow from the PRGT at the regular (rules-based) PRGT interest rate, currently zero; countries required to blend would borrow from the relevant PRGT facility at the same maturities as non-blend countries but incurring a higher (variable) interest rate linked to the GRA rate of charge. To illustrate, let this interest rate be set at two-thirds of the GRA rate of charge (SDR_i plus 100 basis points)—i.e., the average interest rate currently paid when borrowing at the 1:2 PRGT-GRA blending mix. Under this approach:

- Blend countries would be better off, because i) they would not be required to meet the more ambitious objectives required in a GRA arrangement (as compared with the ECF);²⁶ ii) the repayment period would be somewhat more generous than with current blended arrangements; and iii) they would not face GRA interest rate surcharges.²⁷ Each of these features fits better the needs of LICs, which typically face protracted balance of payments problems, than does the current approach of mixing GRA and PRGT funding sources.
- Scarce PRGT subsidy resources would be conserved, with blend country borrowers typically generating income for the PRGT endowment rather than drawing down subsidy resources.²⁸ (Even with high SDR interest rates (specifically SDR_i above 200 bps), where the financing of blenders would be imposing a drain on subsidy resources, the drain would still be significantly

²⁶ Arrangements supported under the GRA are expected to ensure balance of payments difficulties are resolved before repayments to the Fund begin: an arrangement supported under the ECF faces the less demanding condition that significant and sustainable progress is made towards resolving protracted balance of payments needs.

²⁷ Blend countries would also avoid the 0.5 percent one-off charge on each drawing of GRA resources.

²⁸ In our example, a PRGT loan of 1 SDR to a blend country would generate an annual contribution to the subsidy account of interest earned [$\frac{2}{3} * (\text{SDR}_i + 1.0)$] less the funding cost [SDR_i] = $(0.67 - \frac{1}{3} * \text{SDR}_i)$, which > 0 if SDR_i < 2.0. The return to the PRGT subsidy account in this situation is always better than with current blended arrangements, where one-third of the loan is sourced from the PRGT (and the annual subsidy cost is $-\frac{1}{3} * \text{SDR}_i$).

smaller than with the current blending model.) The improvement in flows to the PRGT endowment would come at the cost of less income for the GRA.

- The need for PRGT loan resources would increase substantially, given that the full amount of blend countries' financing needs would now be met from the PRGT, rather than having two-thirds sourced from the GRA. As a corollary, higher lending from the PRGT and a corresponding rise in the stock of PRGT credit outstanding would be reflected in a further drop (relative to baseline projections) in the reserve coverage ratio.

35. Adopting this alternative approach to blending would require several changes to PRGT rules and design, including:

- *the introduction of two sets of interest rates within the PRGT, one applying to non-blend countries, a second applying to all new Fund lending to blend countries;*
- *reforms to allow the transfer of interest income (net of the cost of payments to the loan provider) to either the subsidy or reserve account of the PRGT;*
- *transitional arrangements to exempt blend countries with outstanding PRGT credit from higher interest rates on outstanding loans; and*
- *reforms to allow bilateral contributions from donors to be paid into the reserve account—a change that would alter the nature of this account, with the inclusion of donor contributions implying that any future changes in the use of the account would require donor consent.*

36. Further analysis is needed, including on the majority requirement for these changes and the need for PRGT contributor consents to these changes. The interest rate charged to blend countries would need to be consistent with the general purpose of the PRGT to provide loans on concessional terms; staff is looking further at how concessionality would be defined for these purposes.

37. The main implementation challenge would be to secure the necessary additional resources to bolster the Reserve Account to provide adequate protections to lenders. The financial implications of this reform are discussed in the next section (Box 3-1). Boosting the reserve account would require an appropriate burden-shared funding process, which could take significant time. One option could be to implement this reform at the time of the second stage of the funding strategy (post-pandemic).

D. Financing Implications and Funding Strategy

38. At the April 1 informal Board meeting, there was broad support for scaling up the PRGT's lending capacity during the pandemic, while preserving the endowment. Given the significant uncertainties about potential demand, most Directors supported the "two-stage" funding strategy outlined in the recent paper on PRGT financing options²⁹ (FO/DIS/21/45), which entails (i) a

²⁹ "Review of Concessional Financing and Policies—Financing Considerations" (FO/DIS/21/45).

medium-term fundraising effort to finance crisis-related lending while preserving the PRGT’s capacity to subsidize lending in the longer-term, to be followed in due course by (ii) a lasting solution to PRGT self-sustainability, including through possible use of internal resources.

39. Based on the policy proposals in this paper, staff projects total lending to LICs in the range of SDR 25–57 billion during the pandemic period and its immediate aftermath (2020–24).³⁰ After an unprecedented surge of lending in 2020 (SDR 8.6 billion in commitments, of which SDR 6.5 billion from the PRGT), demand is expected to remain very high over the coming years as LICs move from emergency financing into UCT-quality programs designed to support the recovery. The combination of new Fund lending and a possible new general SDR allocation could cover a significant share of the balance of payments needs of LICs estimated recently by staff.³¹

40. The wide range of potential lending outcomes reflects the uncertainty around economic developments and demand over the coming years. Several factors are particularly difficult to predict at this juncture: (i) the number of LICs that will eventually request program support, (ii) the size of individual programs, which depends on balance of payments needs, policy strength, and capacity to repay, and (iii) the pace of recovery, which depends on external factors (availability of donor financing, export demand, global financial conditions) and domestic ones (health challenges, constrained policy space). To capture these uncertainties, staff has constructed a benchmark scenario with accompanying sensitivity analysis (Annex IV summarizes the methodology):

- The “Baseline” scenario assumes that nearly two-thirds of LICs seek program support (in line with historical peak years) during the pandemic period (2020–24). Access per arrangement is scaled up to almost twice the level observed in recent years, while differentiating across countries by individual quota, GDP, debt vulnerability, and Fund credit exposure.
- To capture uncertainty around the Baseline, a “Low Case” and “High Case” are calibrated by assuming a lower/higher share of LICs request programs, with the High Case also allowing for average access at almost three times the level observed in recent years.
- For the post-pandemic decade (2025–34), staff assumes that a lending envelope of at least SDR 1.65 billion per year is preserved, which would maintain access in real terms compared to pre-crisis levels, without prejudging the appropriate longer-term target for PRGT lending capacity to be discussed in the second stage review. As discussed in FO/DIS/21/45, there would be a case for a significantly larger longer-term envelope (e.g., around SDR 2.5–3.0 billion annually), depending in part on realized lending levels through 2024.

³⁰ Specifically, total loan commitments to LICs (including the GRA part of blended financing) in 2020–24 would amount to SDR 25 billion in the low case, SDR 34 billion in the baseline, and SDR 57 billion in the high case.

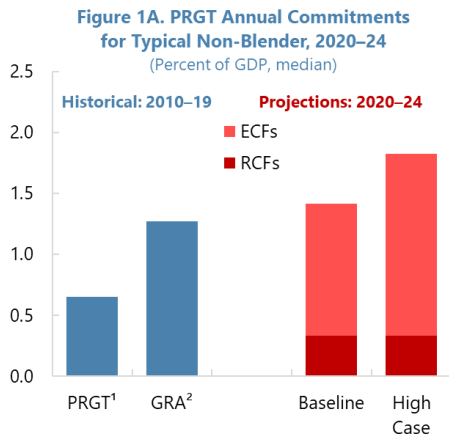
³¹ To put these lending levels in context, the recent paper “Macroeconomic and Developments Prospects in Low-Income Countries—2021” (IMF Policy Paper No. 2021/020) estimated LICs’ total external financing needs for 2021–25 at US\$450 billion, of which some US\$150–200 billion could be met via new borrowing. Fund lending in the baseline/high case scenarios would amount to US\$48 and \$80 billion, respectively, filling somewhere between one-quarter and one-half of the available borrowing space.

41. Lending to LICs during the pandemic would be more than four times the historical average under the Baseline. Total lending commitments to LICs under the Baseline would reach about SDR 34 billion (including SDR 21 billion from the PRGT) during 2020–24. PRGT credit outstanding would peak in 2025/26 at more than three times the pre-pandemic level, before gradually declining in the post-crisis decade as the share of LICs with programs in place reverts to historical levels and some countries move toward blending and PRGT graduation. Under the High Case, total (PRGT and GRA) lending to LICs could reach SDR 57 billion through 2024, with PRGT credit outstanding eventually peaking at five times the pre-crisis level.

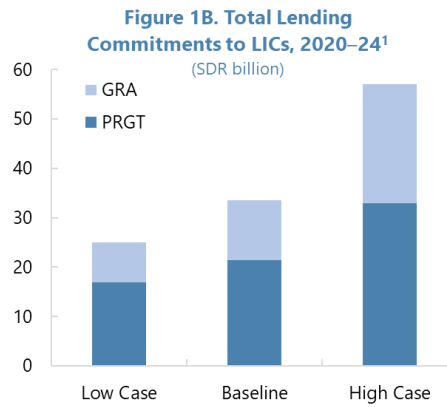
42. This surge in lending will significantly increase country-level exposure to Fund credit, underscoring the need to carefully scrutinize capacity-to-repay in individual cases. Under the Baseline, the typical non-blend LIC would borrow about 1½ percent of GDP annually during the crisis period (about twice the historical level), resulting in peak credit of 5–8 percent of GDP by 2025/26 (averaging around 18 percent of government debt), before declining thereafter. Debt service would peak at around 4–5 percent of exports annually during 2025–30, compared to a historical average of 2 percent. Under the High Case, the typical non-blend LIC would have credit peaking at 7–12 percent of GDP (or 25 percent of general government debt).

43. Financing the Fund’s crisis support to LICs will require mobilizing a further SDR 13 billion in PRGT loan resources, and SDR 2.8 billion in new subsidy resources. This would increase the total loan mobilization in the current round to SDR 30 billion, which would be sufficient to cover all demand scenarios discussed above through 2024, including the High Case. The new subsidy resources would cover pandemic-related lending while leaving a residual annual self-sustained capacity of SDR 1.65 billion under the Baseline, sufficient to preserve access levels in real terms relative to pre-pandemic levels over the longer term. However, the post-crisis residual lending capacity could be higher or lower depending on actual lending levels relative to the Baseline (see below).

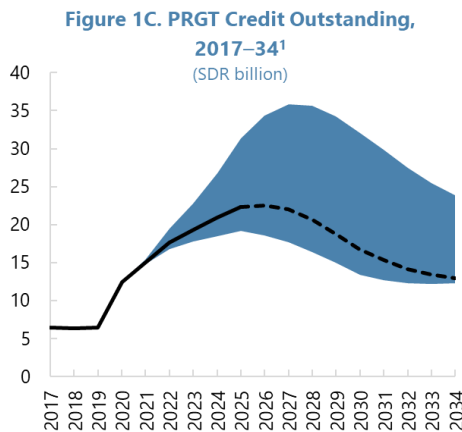
Figure 1. Access Level, and Implications for PRGT Resources and Fund Credit Exposure
(In percent of the indicated variables)



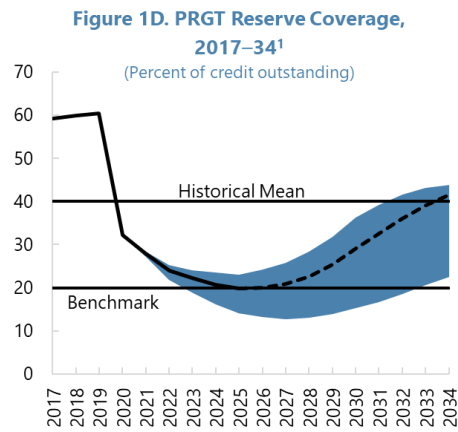
¹ Median annual commitments for non-blend LICs.
² Median annual commitments for emerging economies.



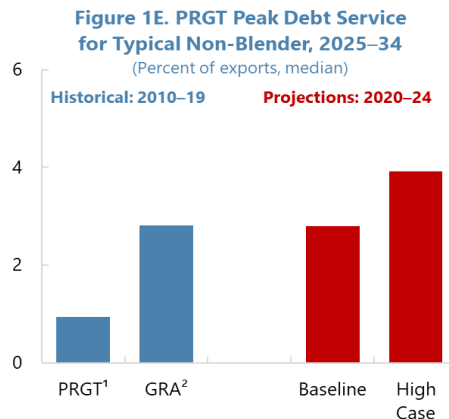
¹ Total new commitments, including emergency financing and multiyears arrangements.



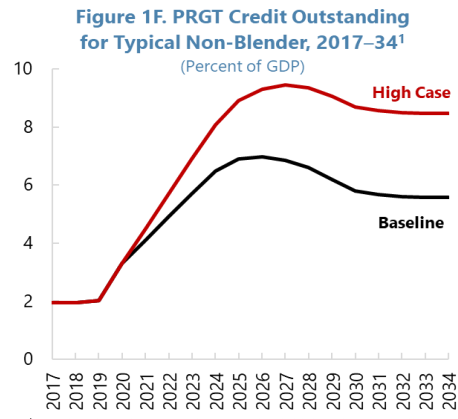
¹ Blue area=High Case (-) Low Case. Black line=Baseline. All scenarios at respective longer-term lending envelope from 2025.



¹ Blue area=Low Case (-) High Case. Black line=Baseline. All scenarios at respective longer-term lending envelope from 2025.



¹ Median peak debt service for non-blend LICs.
² Median peak debt service for emerging economies.



¹ Simulated credit outstanding assuming initial credit outstanding and new commitments around the cross-LIC mean.

Note: These projections do not pre-judge the lending envelope for the post-pandemic decade (2025–34). For illustrative purposes, it is assumed a lending envelope of SDR 1.65 billion for the Low Case and Baseline and SDR 3 billion for the High Case.

44. To mobilize the needed PRGT resources for the coming years, staff propose the following:

- The Fund would approach both current and potential new lenders to mobilize SDR 13 billion in additional loan resources on top of the SDR 17 billion secured so far. “Channeling” of SDRs by contributors, including from the proposed new allocation, could facilitate this loan mobilization. Another round of PRGT loan mobilization would need to follow for the second half of the decade.
- The necessary subsidy resources would come from a combination of (i) suspending GRA reimbursement through FY26, retaining almost SDR 0.5 billion in the Reserve Account and (ii) a burden-shared bilateral grant fundraising campaign in the order of SDR 2.3 billion. As discussed in FO/DIS/21/45, these contributions could be made upfront or over a number of years and includes various contribution schemes to provide donors with flexibility. Economically stronger members (e.g. the group approached for CCRT contributions) would be asked to formally pledge contributions in line with their respective quota-based shares of the agreed funding target.

45. The first stage of the funding strategy would help preserve adequate reserve coverage under the Baseline. The temporary suspension of PRGT reimbursement to the GRA would allow the balance in the Reserve Account to increase gradually over time, driven by investment returns. Reserve Account coverage of PRGT credit outstanding would decline from currently 32 percent to 20 percent in 2025/26, before gradually increasing thereafter. If a significantly higher lending trajectory were to materialize, an interim review of concessional financing and policies would be called for, including to assess options for bolstering credit protections.

46. A longer-term solution to PRGT self-sustainability would be taken up at the second stage of the funding strategy, as part of the next full Review of Concessional Financing and Policies scheduled for 2024 or 2025. As is customary, this would include a review of policies and possible reforms, the financial situation of the endowment under different policy and demand scenarios, and a broad range of possible funding options. A central question for the review will be the appropriate longer-term lending envelope of the PRGT. The additional funding needs at stage two will depend both on the actual crisis-period lending levels, the outlook for demand for concessional resources, and any further policy reforms.

- A self-sustained lending envelope of SDR 1.65 billion annually would essentially maintain access per country at the pre-pandemic level in real terms, allowing for future periodic upward revisions to access limits and norms to avoid eroding access relative to nominal GDP, consistent with the approach taken during the 2018/19 LIC facilities review.³²
- However, a significantly larger self-sustained lending envelope may be desirable. As discussed in FO/DIS/21/45, a lending capacity of SDR 2.5–3.0 billion a year would make room for per-country access levels broadly in line with GRA arrangements for emerging market countries. Such an

³² See “2018-19 Review of Facilities for Low-Income Countries—Reform Proposals” (IMF Policy Paper No. 19/014).

increased steady-state lending capacity could help smooth the transition of LICs reducing their exposure to Fund credit in the post-pandemic period. For instance, if lending evolves as assumed under the Baseline, mobilizing additional subsidy resources of SDR 3 billion in stage two (on top of the SDR 2.8 billion mobilized in stage one) would increase the long-term self-sustained lending capacity to SDR 2.5 billion a year.

- The more Fund lending materializes during the crisis years, the larger will be the need to supplement PRGT finances at the second stage. For instance, if near-term demand evolves along the High Case trajectory, the residual self-sustained annual lending capacity would decline to around SDR 0.8 billion by end-2024, which would severely constrain the Fund’s ability to support LICs in the longer term. This could justify mobilizing additional subsidy resources in the range of around SDR 4–7 billion (on top of the SDR 2.8 billion mobilized in stage one) to increase the self-sustained lending capacity to SDR 2.5–3.0 billion a year.

47. “Rechanneling” of SDRs would facilitate the mobilization of additional PRGT loan resources, which could range from SDR 24–33 billion for the remainder of this decade (2021–30), and as much as SDR 51–70 billion if blenders were to receive all PRGT financing.³³ These ranges assume a significant spike in crisis lending through 2024, and another round of loan mobilization for the second half of the decade sufficient to cover the range of longer-term lending volumes assumed under the Baseline and High Case discussed above. The higher end of the range assumes a scaling up of the PRGT’s longer-term lending capacity.

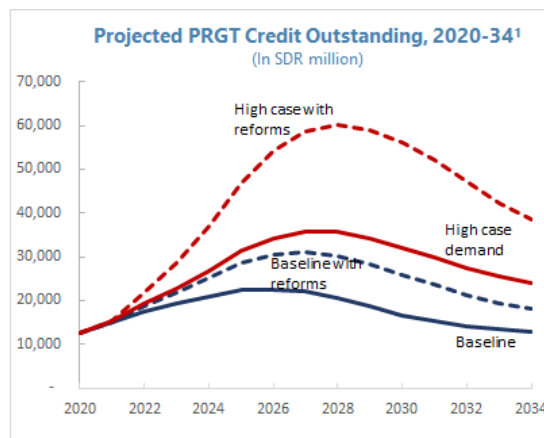
48. Use of IMF internal resources should be carefully considered during the stage two review, especially if the Board were to pursue a significantly larger PRGT lending envelope and associated endowment. This could include a limited sale of IMF gold, which could be used to boost the Reserve Account and generate investment returns for subsidization, or alternatively a distribution of IMF reserves conditional on securing a critical threshold of commitments from members to contribute equivalent amounts for PRGT subsidies. As noted in FO/DIS/20/165 and FO/DIS/21/45, both options would need to be carefully assessed against their impact on the Fund’s balance sheet. Broad support across the membership, and sufficient time for implementation, would be required for the use of either of these options.

³³ This would be on top of the SDR 17 billion already mobilized so far. The estimates take into account the assumed encashment buffer of 20 percent.

Box 3. Financing Implications of Alternative Loan Terms for Presumed Blenders

The reform option discussed in Chapter [2.2] would provide presumed blenders with “all PRGT” lending at a differential interest rate from non-blenders, rather than the current 2:1 mix of GRA and PRGT. This would have implications for subsidy and loan resources, as well as reserve coverage. To illustrate:

- Under Baseline demand projections, PRGT credit outstanding would peak at SDR 31 billion, rather than SDR 22 billion, reflecting the shift from blended to all-PRGT financing for blenders. Under the High Case, PRGT credit could rise to as much as SDR 60 billion.
- The reform would increase PRGT loan resource needs by SDR 28–36 billion for the remainder of the decade, which could be facilitated by SDR “rechanneling.”
- Under Baseline demand assumptions, the reform would generate net subsidy savings to the PRGT of around SDR 100 million during 2022–25, and SDR 700 million through 2034.
- Reserve coverage would reach a trough of 15 percent under the reformed Baseline. To keep reserve coverage above 20 percent, the Reserve Account would need to be augmented by almost SDR 2 billion.



¹ Assuming projected demand under the baseline and under reforms, when entire borrowing by blenders is financed by the PRGT starting from 2022.

To offset the resulting erosion in creditor protection, several options could be considered. Profits from a limited sale of IMF gold could be transferred from the Special Disbursement Account (SDA) to the Reserve Account, where it would both bolster the self-sustained subsidization capacity of the PRGT and enhance credit protection. This would require broad support, including an 85 percent majority of total voting power. Alternatively, lenders to the PRGT could place bilateral grant contributions into a supplemental Reserve Account (where it would be invested along other PRGT assets). Other forms of risk pooling among lenders could be explored as well, subject to an explicit agreement on a burden sharing approach among lenders. All of these options are complex and likely to require significant time to implement, given the need for broad participation and members’ domestic procedures.

Providing “all-PRGT” loans to presumed blenders would have a number of other financial implications. It would introduce a floating rate for concessional lending, which could have potential implications for financial reporting under IFRS-9. System changes would be required to track different loan terms under the same facility depending on the borrower’s blend status at the time of financing approval. Under the proposed interest formula (two-thirds of the GRA rate of charge), the net interest paid by presumed blenders to the PRGT when global rates are low would have to be tracked and attributed in financial reporting. The legal implications of the latter would have to be explored further.

Table 1. Projections Under Illustrative Demand Scenarios, 2020–34
(In SDR billion, unless indicated otherwise)

Scenario	Projected PRGT Financial Statistics										Projected PRGT Credit Outstanding				
	New Commitments				Average Credit Outstanding		Average Reserve Coverage Ratio ¹		PRGT Resources Gap						
	2020–24		2025–34		2020–24	2025–34	2020–24	2025–34	2020–24	2025–34	Loans ²	Subsidy ³			
Low Case	17.0	3.4	16.5	1.65	16.1	15.0	26.7	33.7	10.3	1.7					
Baseline	21.5	4.3	16.5	1.65	17.1	17.9	25.4	28.7	15.7	2.3					
High Case	33.0	6.6	30.0	3.00	19.4	31.0	23.2	16.1	29.6	10.0					
Scenario	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Low Case	12.5	14.8	16.8	17.8	18.5	19.2	18.6	17.7	16.4	15.0	13.4	12.7	12.3	12.2	12.3
Baseline	12.5	15.0	17.7	19.3	20.9	22.4	22.5	22.0	20.6	18.8	16.7	15.4	14.2	13.4	13.0
High Case	12.5	15.4	19.4	22.8	26.8	31.3	34.3	35.9	35.6	34.2	32.0	29.9	27.5	25.5	23.9
<i>Memorandum Item:</i>															
Reserve Account ⁴	4.0	4.2	4.2	4.3	4.3	4.4	4.5	4.6	4.7	4.7	4.9	5.0	5.1	5.3	5.4
Scenario	2020–24						2025–34								
Scenario	PRGT			PRGT+GRA			PRGT			PRGT+GRA					
	Blender	Non-Blender	Total	Blender	Non-Blender	Total	Blender	Non-Blender	Total	Blender	Non-Blender	Total			
Low Case	5.5	11.5	17.0	13.5	11.5	25.0	2.7	13.8	16.5	8.2	13.8	22.0			
Baseline	7.3	14.1	21.5	19.5	14.1	33.6	2.7	13.8	16.5	8.2	13.8	22.0			
High Case	11.6	21.4	33.0	35.7	21.4	57.1	8.4	21.6	30.0	25.3	21.6	46.9			
Scenario	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Low Case	15.8	18.7	21.6	23.0	23.5	24.6	24.9	24.4	23.3	21.8	20.0	18.8	17.8	17.1	16.8
Baseline	15.8	19.0	23.1	25.8	28.1	30.9	32.6	32.7	31.4	29.2	26.4	23.9	21.4	19.4	18.0
High Case	15.8	19.6	26.4	32.7	39.9	49.1	56.5	60.6	61.6	60.1	56.9	52.6	47.3	42.4	38.5

1/ In percent of credit outstanding, based on end-year balances.

2/ Total loan resources required for 2020–24 (including encashment buffer), starting from the SDR 8.4 billion in pre-pandemic freely available loan resources.

3/ Assuming suspension of PRGT reimbursement to the GRA through FY2026, and residual annual self-sustained lending capacity of DR 1.65 billion for the Low Case and Baseline, and SDR 3.0 billion for High Case, as of end-2024.

4/ End-of-period balances, assuming suspension of PRGT reimbursement to the GRA through FY2026.

5/ Total credit outstanding from PRGT-eligible countries including pre-existing balances.

E. Issues for Discussion

1. Do Directors support the proposed reforms to PRGT access limits, including:
 - a. the proposed increases in the normal access limits for the PRGT?
 - b. the elimination of hard caps on PRGT exceptional access and the alignment of the PRGT EA criteria with the Policy Safeguards on Combined High Combined Credit;
 - c. the proposed safeguards on debt sustainability/capacity to repay?
 - d. simplifying the role of “norms”?
2. Do Directors support the proposals on modifying the blending rules, including:
 - a. adjusting the income threshold used to determine blend status;
 - b. simplifying the role of market access and debt vulnerabilities in influencing blend status;
3. Do Directors see merit in fleshing out the reform option of “all-PRGT” financing at a differential (floating) interest rate for countries that are presumed to blend GRA and PRGT resources?
Would they support burden-shared fundraising among PRGT loan providers to enhance reserve coverage in the PRGT?
4. Do Directors support the two-stage funding strategy, with (i) a medium-term fundraising effort to finance crisis-related lending while preserving the PRGT’s capacity to subsidize lending in the longer-term, to be followed in due course by (ii) a lasting solution to PRGT self-sustainability?
5. Do Directors support a “stage one” medium-term fundraising effort to mobilize SDR 13 billion in additional loan resources and SDR 2.8 billion in new subsidy resources, including SDR 2.3 billion via a burden-shared bilateral grant fundraising campaign, providing donors flexibility in terms of timing and method of contributions?
6. What are Directors’ views about the appropriate longer-term size of the PRGT and the merits of using Fund internal resources at the second stage of the funding strategy?

Annex I. Typology of IMF Lending Facilities

Two groups of facilities:

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

Contrast with the World Bank

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

Two types of lending:

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

Two types of facilities (GRA)

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

- length: 3–4 years
- loan maturity: 10 years with 4-year grace period

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

- Short-term Credit Facility (SCF), which is available to PRGT-eligible countries facing an actual or potential short-term BoP need
- Extended Credit Facility (ECF), which (uniquely) is intended to help countries deal with protracted BoP problems (problems that can be resolved only over an extended period)

PRGT LENDING FACILITIES AND FINANCING: STYLIZED FACTS

The status quo:

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

Financing concessional lending:

- **PRGT loan resources** are borrowed from member countries: *there is little financial cost to donors from lending to the PRGT*, which is a near-risk free loan earning interest at the SDR rate.
- **PRGT subsidy resources** are needed to pay the interest subsidy on PRGT loans – the difference between the zero interest rate paid by borrowers and the SDR rate paid to lenders.
- **The PRGT reserve account** contains resources to cover any losses incurred in the event of arrears/default by PRGT borrowers: the balance in the reserve account has historically been on the order of 40 percent of the outstanding stock of loans but could fall below 20 percent in the mid-2020s.
- **PRGT lending operations are intended to be self-sustaining over time**—meaning that the PRGT’s reserve/subsidy resources (boosted by returns on investment, drained by interest rate subsidies) are expected to finance a constant level of lending over time (in perpetuity).

Annex II. The PRGT Exceptional Access Criteria and Policy Safeguards for High Combined Credit Exposures

The PRGT Exceptional Access (EA) Criteria specify safeguards that must be satisfied for use of PRGT resources above the normal access limits. Policy safeguards on High Combined Credit exposure (HCC), which were approved in September 2020, specify safeguards for a member to receive combined PRGT and GRA access above the GRA exceptional access limits. The HCC safeguards build on the respective PRGT and GRA EA frameworks and are broadly aligned with the GRA EA criteria.

The PRGT EA criteria are outlined in column 1 of the table below. Requests for PRGT financing that exceed 100/300 percent of quota (temporarily increased to 245/435 through end-June 2021) can be accommodated only if these criteria are met. The language on “reduce the risk of debt distress to a moderate level or low level” in criterion 2 has been interpreted, outside the HIPC process, to mean achieving a projected assessment of moderate/low risk of debt distress within three years of program approval.

The HCC policy safeguards are outlined in column 2 of the table below. Requests for Fund financing that would entail combined access to GRA and PRGT resources in excess of 145/435 percent of quota (temporarily increased to 245/435 through end-December 2021) can be accommodated only if these criteria are met.

Differences between the PS-HCC and the PRGT EA criteria include:

- PRGT EA 2 requires that the member have a comparatively strong adjustment program and ability to repay the Fund. PS-HCC 4 requires that the member’s program have a reasonably strong prospect for success, taking account of both program policies and the institutional and political capacity to deliver them. The operational distinction between these conditions could be debated at length but it is not substantial: a program involving exceptional levels of access would presumably be expected to be relatively strong and have reasonable prospects for success even in the absence of these criteria.
- For countries at high risk of/in debt distress, PRGT EA 2 requires that the program being supported i) includes the provision of debt relief or restructuring by creditors and ii) is projected to reduce the risk of debt distress to a moderate/low level, with the interpretation to date being that (outside the HIPC process) this must be achieved within a three-year time-frame. By contrast, PS-HCC 2 does not require a debt-restructuring as part of the program, while the time-frame for achieving moderate/low risk of debt distress (for a new program) is “within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer)”. The removal of the debt restructuring requirement contained in PRGT EA 2 from PS-HCC 2 allowed greater flexibility as to how the improved debt position would be achieved; adapting the three-year time frame to accommodate cases where programs would exceed three years was seen as an operationally pragmatic adjustment.

The proposed new specification of the PRGT EA criteria is contained in column 3.

Current and Proposed PRGT Exceptional Access Criteria			
	Current PRGT EA Criteria	HCCE (High Combined Credit Exposure) Safeguards	Proposed PRGT EA Criteria
Criterion 1	[Countries that] experience an exceptionally large balance of payments need that cannot be met within the normal limits.	The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met without giving rise to a combined access to PRGT and GRA resources in amounts exceeding the thresholds that apply as limits in the GRA.	The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met without giving rise to access to PRGT resources in amounts exceeding the thresholds that apply as limits in the GRA.
Criterion 2	<p>The member has a comparatively strong adjustment program and ability to repay the Fund.</p> <p>This criterion would generally not be met for countries with a high risk of debt distress or those that are in debt distress as defined under the joint Bank-Fund DSA, unless expected debt relief or restructuring is projected to reduce the risk of debt distress to a moderate level or low level (IMF Policy Paper "A New Architecture of Facilities for Low Income Countries" June 26, 2009, Footnote 62).</p>	<p>Risks to the sustainability of public debt are adequately contained. This is evidenced by</p> <ul style="list-style-type: none"> • <i>For members for whom use of the Bank-Fund Debt Sustainability Framework for Low Income Countries (the "LIC-DSF") is warranted:</i> <ul style="list-style-type: none"> ○ A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF as having low or moderate overall risk of public debt distress; <u>or</u> ○ Where the member's public debt is not assessed to be sustainable with high probability, combined access above the proposed thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) (i) within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer) or (ii) within the remaining period of an arrangement, in cases where the Board approves an augmentation or rephasing request. • <i>For members for whom use of the MAC DSA is warranted:</i> the debt sustainability requirements for providing exceptional access to GRA resources are met. 	<p>Risks to the sustainability of public debt are adequately contained. This is evidenced by</p> <ul style="list-style-type: none"> • <i>For members for whom use of the Bank-Fund Debt Sustainability Framework for Low Income Countries (the "LIC-DSF") is warranted:</i> <ul style="list-style-type: none"> ○ A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF as having low or moderate overall risk of public debt distress; <u>or</u> ○ Where the member's public debt is not assessed to be sustainable with high probability, combined access above the proposed thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) (i) within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer) or (ii) within the remaining period of an arrangement, in cases where the Board approves an augmentation or rephasing request. • <i>For members for whom use of the MAC DSA is warranted:</i> the debt sustainability requirements for providing exceptional access to GRA resources are met.

Current and Proposed PRGT Exceptional Access Criteria (concluded)			
	Current PRGT EA Criteria	HCCE (High Combined Credit Exposure) Safeguards	Proposed PRGT EA Criteria
Criterion 3	Countries that have GNI per capita at or below the prevailing operational cutoff for assistance from IDA and have not had sustained past access to international financial markets (if GNI per capita is below 80 percent of the IDA cutoff, market access does not preclude EA)..		Countries that do not meet the income criterion for presumed blending at the time when the program request is made
Criterion 4		The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.	The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

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

Country	IMF Credit Outstanding in % of Quota (end-April 2021)	2019 GNI per capita (US \$)	Program in Place (ongoing)	Risk of Debt Distress (end-March 2021)
EA-Eligible Countries (28 countries)				
Chad	295	700		High
Madagascar	241	520	ECF	Moderate
Mali	223	880	ECF	Moderate
Burkina Faso	213	790		Moderate
Malawi	211	380		Moderate
Niger	208	560		Moderate
Central African Republic	192	520	ECF	High
Sierra Leone	180	500	ECF	High
Ethiopia	174	850	ECF-EFF	High
Rwanda	169	820	PCI	Moderate
Togo	169	690		Moderate
Guinea	160	950		Moderate
Mozambique	158	480		In debt distress
Somalia	158	-	ECF-EFF	In debt distress
Guinea-Bissau	118	820		High
Nepal	118	1090		Low
Uganda	100	780		Low
Gambia, The	97	740	ECF	High
Afghanistan	86	540	ECF	High
Tajikistan	82	1030		High
Haiti	76	790		High
Liberia	75	580	ECF	Moderate
South Sudan	65	-		High
Congo, Dem. Rep.	50	520		Moderate
Sudan	32	590		In debt distress
Burundi	9	280		High
Yemen	7	940		High
Eritrea	0	-		In debt distress

Sources: World Bank, World Development Indicators; and IMF staff calculations.

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

Country	IMF Credit Outstanding in % of Quota (end-April 2021)	2019 GNI per capita (US \$)	Program in Place (ongoing)	Risk of Debt Distress (end-March 2021)
Presumed Blenders: Countries above the IDA operational cutoff with L or M risk of debt distress (17 countries) or above 80 percent of the cutoff with market access (1 country) (18 countries)				
Côte d'Ivoire	276	2290		Moderate
Benin	263	1250		Moderate
Moldova	190	3930		Low
Kyrgyz Republic	146	1240		Moderate
Honduras	135	2390	SBA-SCF	Low
Comoros	112	1420		Moderate
Solomon Islands	103	2050		Moderate
Senegal	100	1450	PCI	Moderate
Myanmar	100	1390		Low
Bangladesh	86	1940		Low
Lesotho	67	1360		Moderate
Nicaragua	50	1910		Moderate
Uzbekistan	50	1800		Low
Vanuatu	32	3170		Moderate
Bhutan	0	2970		Moderate
Timor-Leste	0	1890		Low
Cambodia	0	1480		Low
Tanzania	0	1080		Low
Potential Presumed Blenders if assessed as having prospective market access (8 countries)				
Cameroon	255	1500		High
Ghana	194	2220		High
Dominica	146	8090		High
Kenya	164	1750	ECF-EFF	High
Maldives	100	9650		High
Cabo Verde	100	3630		High
Papua New Guinea	100	2780		High
Lao PDR	0	2570		High
Others not eligible for EA due to GNI per capita above the IDA cutoff (15 countries)				
Mauritania	193	1660		High
Grenada	178	9980		In debt distress
São Tomé and Príncipe	137	1960	ECF	In debt distress
Samoa	118	4180		High
St. Vincent and the Grenadines	113	7460		High
Djibouti	106	3540		High
St. Lucia	100	11020		High
Tonga	50	4300		High
Congo, Rep.	20	1750		In debt distress
Zambia	0	1450		High
Tuvalu	0	5620		High
Marshall Islands	0	4860		High
Micronesia	0	3400		High
Kiribati	0	3350		High
Zimbabwe	0	1390		In debt distress

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

Annex IV. Methodology for Estimating PRGT Resource Needs

Staff's projections for PRGT lending to LICs and implied resource needs have been updated and refined relative to the methodology described in Annex II of FO/DIS/21/45. Key features are summarized here:

All lending scenarios build in the access and blending policy changes discussed in this paper, including an across-the-board 45 percent increase in normal access limits and the removal of a hard cap on PRGT access for countries below the IDA cutoff.

All lending scenarios apply access rules, including annual and cumulative limits as well as sub-limits to emergency financing, based on existing credit exposures and previous disbursements for each country. Subject to applicable caps, blenders are assumed to be financed by PRGT/GRA at a 1:2 ratio. Access policies are assumed to remain unchanged until the next LIC Facilities and Financing Review in 2024/25.

Per-country access under new arrangements is projected based on scenario-dependent benchmarks—calibrated at twice the level assumed under current policies in the Baseline and Low Case (and at three times in the High Case). PRGT access per arrangement is differentiated by the country's degree of debt vulnerabilities, its blend status, and its pre-existing credit exposure to the Fund. Given the wide range of quota/GDP ratios among LICs and to capture potential balance of payments needs, access is a function of both quota and GDP, subject to lower and upper limits.

The near-term projections make an allowance for new emergency financing subject to applicable sub-limits on access. They also allow for augmentations of pre-existing arrangements.

Total PRGT lending is ultimately dependent on demand, i.e. on the share of LICs seeking Fund financing. The Baseline through 2024 assumes that almost two-thirds of eligible LICs (on a quota-weighted basis) request program support, which is in line with peak demand years during the global financial crisis and the percentage of LICs that requested financial support in 2020. The Low Case assumes 40 percent (the longer-term average) and the High Case assumes about 80 percent, which would be unprecedented.

The longer-term demand projection allows for periodic increases in nominal access in line with GDP growth partly offset by savings from transitions from non-blending to blending, and from blending to graduation. The Baseline and Low Case projection for the post-crisis decade (2025–34) projects average annual demand of SDR 1.65 billion based on an assumption that future access increases are calibrated to preserve access in real terms relative to pre-pandemic levels. The longer-term envelope for the High Case is calibrated to per-country access in line with GRA arrangements for emerging market countries, implying SDR 3 billion of average annual lending in the post-crisis decade.

The demand projections are then fed into the traditional capacity/supply model, which translates projected commitments into disbursements and credit outstanding, calculates subsidization costs and the evolution of investment returns on PRGT assets, and produces an estimate of the PRGT's

self-sustained lending capacity at different points in time based on existing subsidy and reserve account resources. The combination of demand scenarios and supply analysis then provides a complete picture of the PRGT's lending capacity and the resource implications discussed in this note for each scenario.