

July 20, 2021

**The Chair's Summing Up  
Fund Concessional Financial Support for Low-Income Countries—  
Responding to the Pandemic  
Executive Board Meeting 21/71  
July 14, 2021**

Executive Directors supported the proposed package of reforms to the concessional financing facilities and the associated two-stage funding strategy to ensure sustainability of concessional lending.

Directors agreed that low-income countries (LICs) have been particularly hard hit by the COVID-19 pandemic and would face significant challenges in achieving sustainable inclusive growth in the coming years. They noted that the Fund has responded quickly to provide financial support to LICs at an unprecedented scale, and, looking ahead, should continue supporting countries that are implementing strong economic programs aimed at recovering from the pandemic and raising living standards.

Directors were in broad agreement that the proposed reform package would better position the Fund to respond to the needs of LICs. They supported the proposed increases in limits on normal access to resources of the Poverty Reduction and Growth Trust (PRGT) and the removal of the limits on exceptional access for the poorest countries. Some Directors, however, expressed concern about entirely removing the hard caps on PRGT exceptional access for poorer LICs. Some Directors suggested that the new access limits should include a sunset clause set to coincide with the time of the next full review of concessional facilities.

Directors generally agreed that higher access limits would provide the Fund with the flexibility to increase concessional financial support for countries with strong reform programs. However, they emphasized that access levels in individual Fund-supported programs should continue to be based on a case-by-case assessment applying the established access criteria, including balance of payments needs, strength of economic program, and capacity to repay the Fund. In this context, most Directors underscored the importance of maintaining the Fund's established role in catalyzing financing from other sources, while noting that the Fund must respond to its membership's needs in line with its mandate, particularly during crisis times. They supported the proposed simplification of access norms, while emphasizing that norms are neither a floor nor a ceiling on access levels in individual program cases.

With many LICs facing substantial debt vulnerabilities, Directors agreed that program design needs to pay close attention to the expected evolution of debt burdens and the risk of countries falling into debt distress. Higher levels of lending would mean higher credit risk to

the Fund and a corresponding need for more in-depth analysis of capacity to repay the Fund. Directors supported the proposal to give enhanced attention to debt dynamics and capacity to repay in staff analysis and in program documents, along the lines discussed in Annex VI of the Board paper. In this regard, Directors emphasized the importance of taking into account country-specific circumstances and called for the Fund to support capacity development in debt management.

Directors supported the staff proposal to closely align the PRGT exceptional access criteria with the requirements of the Policy Safeguards on High Combined Credit, while retaining the current feature that only poorer LICs are eligible for exceptional access to the PRGT. However, a number of Directors expressed concern about removing the requirement in the PRGT exceptional access framework that programs with countries at high risk of (or in) debt distress should be linked with debt restructuring. Directors agreed to extend further the temporary increases to the access thresholds that trigger the procedural safeguards for high access in the PRGT until the next comprehensive review of facilities for LICs.

Directors supported the proposals to adjust the framework for determining when LICs are required to blend concessional (PRGT) and non-concessional General Resources Account (GRA) resources. They welcomed the proposed adjustment of the income threshold to limit the impact of transient income changes on a country's blend status and agreed with the proposals to simplify the role of debt vulnerabilities in determining blend status.

Many Directors supported further exploration of the option to allow all PRGT-eligible countries to meet their financing needs through PRGT facilities along with the introduction of a dual interest rate mechanism in the PRGT. They noted that this could provide benefits to LICs now required to blend while modestly reducing the cost of subsidizing PRGT lending. Some Directors did not see merit in implementing such a proposal, given the stresses it would place on reserve coverage. In general, Directors agreed that the approach would be viable only if resources were made available to ensure sufficient lending resources and an acceptable level of reserve coverage for the higher levels of PRGT lending that would occur.

Directors endorsed the proposed two-stage funding strategy for the PRGT, entailing a medium-term fund-raising effort to cover the PRGT resource gap created by the pandemic, followed by examination of the appropriate long-term PRGT lending envelope, the associated PRGT funding requirements, and how these needs could be met as part of the next comprehensive review of concessional facilities in 2024/25.

Directors supported the fundraising targets for the first stage of the strategy—a further SDR 12.6 billion in PRGT loan resources and SDR 2.8 billion in new subsidy resources. They broadly supported an increase in the PRGT cumulative borrowing limit to SDR 68 billion to allow mobilization of these loan resources. Directors agreed that the

subsidy resources should be generated by i) suspension of PRGT reimbursement to the GRA for administrative expenses through FY2026 and ii) mobilizing SDR 2.3 billion via a broad burden-shared bilateral fundraising campaign. Some Directors stressed that the Fund's own effort, including exploring further use of internal resources, will be essential for asking member countries for bilateral contributions. Directors welcomed the range of options available to donors to provide support, with flexibility in terms of both timing and the mechanisms for providing subsidy contributions. To this end, they supported the creation of two new PRGT accounts—a “Subsidy Reserve Account” (SRA) and a “Deposit and Investment Account” (DIA)—to facilitate member contributions for the purpose of PRGT subsidization, with the SRA having a secondary purpose as a supplementary reserve account, boosting the reserve coverage ratio.

Directors noted that the PRGT interest rate mechanism, adopted in 2009 and modified in 2019, has worked broadly as intended. Going forward, they agreed that interest rates on all loans provided through the PRGT facilities will remain at zero until the next review of the interest rate structure, to occur by end-July 2023.

Directors commended the exceptional response by donors to financing requests from the Fund during the past 18 months. They recognized that the support now being requested is substantial, even if spread over several years, but underscored that the PRGT has played a vital role in the response to the pandemic and, if adequately supported, would continue to provide essential support to LICs during the recovery and beyond. Many Directors recommended an early exploration of all financing options, including mobilizing internal Fund resources and exploring gold sales ahead of the second stage. However, a few Directors did not support proposals for gold sales or a gold pledge, noting the complexity and length of time required to complete the process as well as possible impacts on the strength of the Fund's balance sheet.

Given the substantial uncertainties around potential demand for concessional resources and the timing and scale of donor contributions, Directors underscored the need to closely monitor the evolution of PRGT finances and supported the staff proposal for annual reviews of the adequacy of PRGT resources. A few Directors emphasized that frequent reviews would be important to enable the Board to conduct adequate oversight and take contingency measures, including possible adjustments to lending policies, if needed. A number of Directors also called for an update to the Board on the fund-raising status after this year's Annual Meetings. Directors looked forward to the first annual review of PRGT finances before the 2022 Spring Meetings.