

**EXECUTIVE
BOARD
MEETING**

SM/21/33
Correction 1

March 22, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Temporary Extensions and Modifications of Access Limits in the Fund's Lending Facilities**

Board Action: The attached corrections to SM/21/33 (3/12/21) have been provided by the staff.

Evident Ambiguity **Pages 22, 25, 27**

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views **Page 2**

Typographical Errors **Pages 6 and 21**

Questions: Mr. Kim, SPR (ext. 34916)
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CONTENTS

INTRODUCTION	4
ACCESS TO EMERGENCY FINANCING INSTRUMENTS	6
A. Context	6
B. Usage	7
C. Discussion	7
D. Staff Proposals	11
REVIEW OF TEMPORARY MODIFICATIONS OF ANNUAL ACCESS LIMITS AND PROPOSAL FOR THE GRA ANNUAL ACCESS LIMIT	13
A. Context	13
B. Usage	13
C. Staff Proposals	17
PROPOSED TEMPORARY INCREASE IN PRGT ACCESS LIMITS	18
A. Context	18
B. The Case for an Increase in PRGT Access Limits	18
C. Staff Proposals	20
D. Resource Implications	23
SUMMARY OF PROPOSALS	24
BOX	
1. Constraints of Annual Access Limits: Example	15

6. To address these emerging difficulties, this paper proposes further temporary extensions to selected access limits and a temporary increase to key PRGT access limits:

- *Extend through end-2021 the temporary increases that were introduced in April 2020 to the annual and cumulative access limits under the EF instruments.* Any request for EF would need to make a strong case that the country meets the requirements for accessing EF—in particular, the condition that a country is unable (as distinct from unwilling) to implement a UCT-quality program supported by a Fund arrangement at that juncture. The experience to date with EF and the case for the proposed extension are discussed in Section II.
- *Extend through end-2021 the temporary increase of the AAL in the GRA.* Staff will make use of the format for informal briefing on Country Matters to ensure that Directors are informed of cases where elevated annual access levels are under consideration ahead of any formal discussions with country authorities.⁷ The experience to date with elevated annual access limits and the case for the proposed extension of the AAL to GRA resources are discussed in Section III.

Increase the Normal Annual Access Limit (NAAL) and the Normal Cumulative Access Limit (NCAL) to the PRGT to 245 percent of quota and 435 percent of quota, respectively, through end-June 2021. The case for these changes and the associated safeguards envisaged are discussed in section IV. The wider issues of the Fund's lending policies for LICs and how these can be financed are being taken up in the ongoing Review of Concessional Financing and Lending Policies, which would, inter alia, determine access limits and policy beyond end-June 2021. Also, the increase in the NAAL and NCAL would be accompanied by a temporary increase through end-June 2021 in the exceptional annual and cumulative access limit applicable to the PRGT to 278.33 percent and to 535 percent of quota, respectively.

ACCESS TO EMERGENCY FINANCING INSTRUMENTS

A. Context

7. The Fund has two emergency financing (EF) instruments—the Rapid Financing Instrument (RFI), accessible by all members, and the Rapid Credit Facility (RCF), accessible only by PRGT-eligible members. Members qualify to access the EF instruments only when, among other things, (i) they are facing an urgent BOP need, and (ii) an IMF-supported program that meets the UCT-conditionality standard is either not necessary or not feasible.⁸ Use of the EF instruments may involve prior actions (PAs) if deemed appropriate: during the pandemic period, such PAs have been used in the main to address serious governance concerns.

8. There are hard limits on the amounts that countries can borrow under the RFI and RCF. Financing from EF instruments is normally subject to a limit of 50 percent of quota during any 12-

⁷ Elevated access here refers to requests with annual access between 145 and 245 percent of quota and cumulative access of less than 435 percent of quota.

⁸ A UCT-quality arrangement is considered not necessary when the urgent BOP need is expected to be resolved within one year with no major policy adjustments.

40. With this wider assessment underway, staff proposes an interim reform measure that would modify access limits to PRGT resources on a temporary basis, recognizing that the final contours of a general reform proposal will follow in due course. Specifically, it is proposed that:

- the NCAL on borrowing would be increased from 300 to 435 percent of quota through end-June 2021.
- the NAAL on borrowing (now 150 percent of quota, set to return to 100 percent on April 7) would be increased to 245 percent of quota through end-June 2021.^{20 21}

These changes would ensure that an NPB country requesting access at levels that would not be viewed as “exceptional” either in the GRA or under the combined High Access Policy Safeguards could receive all its financing from the PRGT.²²

41. It is further proposed that: (i) all access norms in the PRGT would remain unchanged over the same time period;²³ and (ii) the PRGT exceptional access framework would also remain unchanged, thus making available up to 33.33/100 percent of quota in additional PRGT resources for EA-eligible countries that meet the relevant criteria. Specifically, the increase in the normal access limits would be accompanied by a temporary increase through end-June 2021 in the exceptional annual and cumulative access limits applicable to the PRGT to 278.33 percent and 535 percent of quota, respectively).

Safeguards

42. NPB countries that are EA-eligible and request access to PRGT resources in excess of the current EA thresholds of 150 percent (annual, through April 6) and 300 percent of quota (cumulative) must meet the exceptional access criteria—this safeguard would be weakened by the proposed higher limits. The proposed approach would shift these thresholds for higher scrutiny to 245 percent and 435 percent of quota respectively, thereby eroding one of the safeguards to protect PRGT resources. This easing of safeguards is of significance because countries

²⁰ The highest level of annual access approved to date for an NPB country since the NAAL was increased on July 13 2020 is 123 percent of quota (Table 3); it seems unlikely that an NPB member country will seek annual access close to the proposed temporary limit of 245 percent in the period through end-June 2021.

²¹ For explanation on how annual access levels are calculated, see Box 1 in [Temporary Modification to the Fund's Annual Access Limits](#).

²² The higher limits would apply to all new requests for financing and augmentation of access under existing arrangements. Accordingly, the new proposal would not affect existing arrangements subject to the PRGT exceptional access criteria that were grandfathered from the application of the Policy Safeguards on High Combined Credit to the GRA-PRGT (PS-HCC) in September 2020—the only such arrangement is with Ethiopia—unless an augmentation request is made. This is to ensure adequate and even-handed safeguards for exceptional/high access across all PRGT borrowers.

²³ Combined GRA-PRGT access for blend countries (in a ratio of 2:1) would continue to be constrained by the relevant PRGT norm. Staff will review these norms in the context of the assessment of the Fund's approach to concessional financing, cited above.

relieved of this scrutiny are those set to have high levels of debt to the Fund, at a time when some 70 percent of NPB countries are at high risk of, or in, debt distress.

43. The Fund relies on a multilayered framework for credit risk mitigation, including program design and access policies. The approach to setting access under an arrangement (PRGT or GRA) entails a case-by-case determination, where access needs to be justified on the basis of a rigorous assessment informed by the standard access policy criteria, including the member's BOP need, the strength of its adjustment program and capacity to repay, and the member's record in using Fund credit in the past. Such case-by-case assessments will remain critical to ensuring adequate safeguards for PRGT resources. In addition, program measures in the areas of public financial management and debt management will work to strengthen controls on the use of public resources and promote transparency, thereby supporting debt sustainability and capacity to repay.

44. Existing safeguard measures would be retained, albeit adjusted given the high levels of EF provided early in the pandemic to ensure that, "routine-sized" programs would not trigger procedural safeguards:

- **The PRGT EA framework would remain in place.** A request for annual or cumulative access under the PRGT exceeding 245 and 435 percent would trigger the PRGT EA policy with unchanged EA criteria.
- **The PRGT lending framework has high access procedural safeguards:** these are triggered when access to PRGT resources over any 36-month period exceeds 180 percent of quota ("flow trigger"), or where overall exposure to the PRGT exceeds 225 percent ("stock trigger").
 - With the majority of NPB countries having obtained exceptional emergency financing in the first months of the pandemic, it is proposed that the flow trigger be set at 240 percent of quota through end-2023, by which time all the financing provided in response to the initial shock will 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, it is proposed that the stock trigger be increased to 300 percent of quota [through June 30, 2021](#) to avoid triggering the procedural safeguards in cases involving modest new access.
- **The Policy Safeguards triggered by high combined access to the GRA and PRGT would remain in place.**

45. Consistent with the proposed approach for temporarily elevated AAL in the GRA (Section III), staff will make use of the Briefings on Country Matters format to ensure that Directors are made aware of upcoming PRGT cases where elevated access levels are under consideration ahead of any formal discussions with country authorities.²⁴

²⁴ Elevated access levels here mean annual access between 145 percent and 245 percent of quota; requests entailing cumulative access in excess of 300 percent of quota would trigger the high access procedural safeguards.

- vi. Increase the exceptional access annual limit applicable to PRGT arrangements to 278.33 percent of quota²⁶ and the exceptional access cumulative limit to 535 percent of quota, both through June 30, 2021.
- vii. Modify existing safeguards measures as set forth above.

51. Three decisions are proposed for adoption by the Executive Board. Decision I would implement the proposed amendments to the Decision on Access Policy and Limits on Overall Access to the Fund's General Resources, and Exceptional Access Policy ("GRA access decision"). Decision II would implement the proposed amendments to the PRGT Instrument. Decision III would implement the proposed amendments to the RFI. Annexes I, II and III of the supplement set forth for the convenience of Executive Directors redlined texts that show revisions against the current GRA access decision, the PRGT Instrument and the RFI Instrument, respectively.

²⁶ Currently temporarily increased to 183.33 percent, set to return to 133.33 percent on April 7

Annex II. List of PRGT-Eligible Countries that are Not Eligible for PRGT EA

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

Sources: 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.