

**EXECUTIVE
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MEETING**

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To: Members of the Executive Board

From: The Secretary

Subject: **Proposal for a Food Shock Window Under the Rapid Financing Instrument and Rapid Credit Facility—Proposed Decisions**

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

Tentative Board Date: **Friday, September 30, 2022**

Proposed Decisions: Pages 4-7

Questions: Ms. Liu, LEG (ext. 37643)
Mr. Chabert, SPR (ext. 37371)
Ms. Murgasova, FIN (ext. 34209)
Ms. Rosenberg, LEG (ext. 37790)
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September 23, 2022

**PROPOSAL FOR A FOOD SHOCK WINDOW UNDER THE
RAPID FINANCING INSTRUMENT AND RAPID CREDIT
FACILITY—PROPOSED DECISIONS**

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

INTRODUCTION

This paper (supplement) sets forth the proposed decisions that are needed to implement staff's proposals in Proposal for a Food Shock Window Under the Rapid Financing Instrument and Rapid Credit Facility, SM/22/229. Below is a summary of the key aspects of the proposed decisions to establish the proposed window.

1. **Two separate decisions are proposed for adoption by the Executive Board.** Decision A would implement the proposed amendments to the Decision on the Rapid Financing Instrument (RFI), *Decision No. 15015-(11/112), 11/21/2011*, as amended, ("RFI Decision") by inserting a new subparagraph (C) in paragraph 5 of the RFI Decision. The following are the resulting changes:
 - Establishment of a "window" within the RFI allowing for access not exceeding 50 percent of quota for financing of urgent balance of payments needs associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal exports shortfalls.
 - Modification of the current access limits under the RFI to allow the RFI cumulative limit to reach 175 percent of quota if financing under the new window is accessed. As noted in the main paper, where a member requests and is approved for financing under the food shock window, the cumulative limit under the RFI regular window will be increased, including in respect to prospective requests, to provide additional borrowing space for financing of any urgent BOP needs addressed under the RFI to qualifying members. In addition, financing under the food shock window will be fully additional to the current annual access limits under the RFI.
 - Qualification criteria for access under the new window are also specified in line with the proposals in the main paper.
2. **The window shall be available from September 30, 2022 to September 29, 2023.**
3. **In addition, the decision specifies the expectation that the Fund will review the application of the newly established food shock window by end-June 2023 in line with staff proposals (paragraph 14 of the main paper).**
4. **Decision B implements the proposed amendments to the *Instrument to Establish the Poverty Reduction and Growth Trust ("PRGT Instrument")*, annexed to *Decision No. 8759-(87/176) ESAF*, and addresses for the Rapid Credit Facility (RCF) all the elements discussed above for the RFI decision.** In addition, decision B provides that access under the new window shall not be subject to the limit of two disbursements during any 12-month period under the RCF. As noted in the paper, qualifying countries would not be precluded from making repeat use of the food shock window within the 50 percent access cap in the case of recurring or ongoing urgent financing needs, during the 12-month period of availability of the window.

5. **A redlined version of the RFI Decision and the PRGT Instrument showing the proposed amendments is attached for the convenience of Executive Directors.** See Annex I of this supplement.
6. **Set forth below are proposed decisions as noted above.**

Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

Decision A: RFI

1. Paragraph 5 of Decision No. 15015-(11/112), 11/21/2011, as amended, shall be amended by adding a new subparagraph (C), and shall read as follows:

“(C) for a period from September 30, 2022 to September 29, 2023, the Fund may approve financing of up to 50 percent of quota to help a member address an urgent balance of payments need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal export shortfalls. Access under this subparagraph (C) shall be fully additional to the annual access limits established under this paragraph 5. Subject to subparagraph (B) above, a member’s access to financing under this subparagraph (C) shall increase the cumulative access limit under the RFI to 175 percent of quota. Before approving financing under this subparagraph (C), the Fund shall be satisfied that the member has an urgent balance of payments need associated with one of the following:

- (1) acute food insecurity that is inflicting serious economic disruption within the member on such a scale as to warrant a concerted international effort to support the member. In assessing the qualification of members under this subparagraph (C)(1), the Executive Board would take into account whether the member faces acute food insecurity as defined by the Food and Agriculture Organization (FAO) and World Food Programme (WFP) or a major food crisis per the United Nations Global Report on Food Crisis (UNGRFC), in both cases, based on the most recent publicly available data; or*
- (2) increased prices of cereal or fertilizer imports that negatively impact the member’s*

external current account where such negative impact amounts to at least 0.3 percent of GDP over a 12-month period, as specified in more detail in SM/22/229; or

(3) shortfall in cereal exports, where the projected negative shock to cereal exports, benchmarked against the previous year, exceeds 0.8 percent of projected GDP for the compensable year.”

2. It is expected that the Fund will review the application of paragraph 5(c) of this Decision by end-June 2023.

Decision B: PRGT

1. Section II, Paragraph 1(d)(2) of the *Instrument to Establish the Poverty Reduction and Growth Trust (“PRGT Instrument”)*, annexed to Decision No. 8759-(87/176) ESAF, as amended, shall be revised to read as follows:

“(2) Before approving a disbursement under the RCF, the Trustee shall be satisfied (a) that the member is experiencing an urgent balance of payments need characterized by a financing gap that, if not addressed, would result in an immediate and severe economic disruption; (b) that the member’s balance of payments difficulties are not predominantly caused by a withdrawal of financial support by donors; and (c) normally, that the member either (i) has a balance of payments need that is expected to be resolved within one year with no major policy adjustments being necessary, or (ii) lacks capacity to implement an upper credit tranche-quality economic program owing to its limited policy implementation capacity or the urgent nature of its balance of payments need. If a member has received a disbursement under the RCF within the preceding three years, then any additional disbursements under the RCF may be approved only where the Trustee is satisfied that: (i)

the member's balance of payments need was caused primarily by a sudden and exogenous shock, or (ii) the member has established a track record of adequate macroeconomic policies for a period of normally about six-months prior to the request; provided that (A) effective as of January 1, 2022, a member may not receive more than two disbursements under the RCF during any 12-month period; (B) any disbursements between July 13, 2020 and December 31, 2021 shall not count towards the limit set forth in (A) above, and (C) any disbursements made to address an urgent balance of payments need under Section II, Paragraph 2(b)(iv) shall not count towards the limit set forth in (A) above."

2. Section II, Paragraph 2 (b) of the PRGT Instrument shall be revised by replacing "Subject to the provisions in subparagraphs (i) to (iv) below" with "Subject to the provisions in subparagraphs (i) to (v) below" at the beginning of the subparagraph.

3. Section II, Paragraph 2 (b)(iii) of the PRGT Instrument shall be amended by deleting "and" at the end of the subparagraph.

4. Section II, Paragraph 2 (b) of the PRGT Instrument shall be revised by inserting a new subparagraph 2(b)(iv) and the current sub-paragraph 2(b)(iv) shall be renumbered as 2(b)(v). The new subparagraph 2(b)(iv) shall read as follows:

"(iv) for a period from September 30, 2022 to September 29, 2023, the Fund may approve financing of up to 50 percent of quota to help a member address an urgent balance of payments need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal exports shortfalls. Access under this subparagraph (iv) shall be fully additional to the annual access limits established under this subparagraph 2(b). A member's access to financing under this subparagraph shall increase the cumulative access limit referred to in subparagraph 2(b)(iii) above to 175 percent of quota. Before approving financing under this window, the

Fund shall be satisfied that the member has an urgent balance of payments need associated with one of the following:

- (1) acute food insecurity that is inflicting serious economic disruption within the member on such a scale as to warrant a concerted international effort to support the member. In assessing the qualification of members under this subparagraph (iv)(1), the Executive Board would take into account whether the member faces acute food insecurity as defined by the Food and Agriculture Organization (FAO) and World Food Programme (WFP) or a major food crisis per the United Nations Global Report on Food Crisis (UNGRFC), in both cases, based on the most recent publicly available data; or*
- (2) increased prices of cereal or fertilizer imports that negatively impact the member's external current account where such negative impact amounts to at least 0.3 percent of GDP over a 12-month period, as specified in more detail in SM/22/229; or*
- (3) cereal exports shortfalls, where the projected negative shock to cereal exports, benchmarked against the previous year, exceeds 0.8 percent of projected GDP for the compensable year; and"*

5. It is expected that the Fund will review the application of Section II, Paragraph 2(b)(iv) of the PRGT Trust Instrument by end-June 2023.

Annex-Redlined Modifications

Paragraph 5 of Decision No. 15015-(11/112), 11/21/2011

"5. Assistance under this Decision shall be made available to members in the form of outright purchases. Access by members to resources under this Decision shall be subject to (a) an annual limit of 50 percent of quota, and (b) a cumulative limit of 100 percent of quota, net of scheduled repurchases, provided that:

(A) for the period from April 6, 2020 to December 31, 2021, the above annual access limit shall be 100 percent of quota and for the period from April 6, 2020, to June 30, 2023, the above cumulative access limit shall be 150 percent of quota, net of scheduled repurchases, and

(B) the annual access limit shall be 80 percent of quota and the cumulative access limit shall be 133.33 percent of quota, net of scheduled repurchases, where (i) the member requests assistance under the RFI to address an urgent balance of payments need resulting from a natural disaster that occasions damage assessed to be equivalent to or to exceed 20 percent of the member's gross domestic product (GDP), and (ii) the member's existing and prospective policies are sufficiently strong to address the natural disaster shock. For the period from June 21, 2021 to December 31, 2021, the above annual access limit shall be 130 percent of quota and for the period from June 21, 2021, to June 30, 2023, the above cumulative access limit shall be 183.33 percent of quota, net of scheduled repurchases.

“(C) for a period from September 30, 2022 to September 29, 2023, the Fund may approve financing of up to 50 percent of quota to help a member address an urgent balance of payments need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal export shortfalls. Access under this subparagraph (C) shall be fully additional to the annual access limits established under this paragraph 5. Subject to subparagraph (B) above, a member’s access to financing under this subparagraph (C) shall increase the cumulative access limit under the RFI to 175 percent of quota. Before approving financing under this subparagraph (C), the Fund shall be satisfied that the member has an urgent balance of payments need associated with one of the following:

- (1) acute food insecurity that is inflicting serious economic disruption within the member on such a scale as to warrant a concerted international effort to support the member. In assessing the qualification of members under this subparagraph (C)(1), the Executive Board would take into account whether the member faces acute food insecurity as defined by the Food and Agriculture Organization (FAO) and World Food Programme (WFP) or a major food crisis per the United Nations Global Report on Food Crisis (UNGRFC), in both cases, based on the most recent publicly available data; or*
- (2) increased prices of cereal or fertilizer imports that negatively impact the member’s external current account where such negative impact amounts to at least 0.3 percent of GDP over a 12-month period, as specified in more detail in SM/22/229; or*
- (3) shortfall in cereal exports, where the projected negative shock to cereal exports, benchmarked against the previous year, exceeds 0.8 percent of projected GDP for the compensable year.”*

Section II, Paragraph 1(d)(2) of the *Instrument to Establish the Poverty Reduction and Growth Trust ("PRGT Instrument")*, annexed to Decision No. 8759-(87/176) ESAF.

“(2) Before approving a disbursement under the RCF, the Trustee shall be satisfied (a) that the member is experiencing an urgent balance of payments need characterized by a financing gap that, if not addressed, would result in an immediate and severe economic disruption; (b) that the member’s balance of payments difficulties are not predominantly caused by a withdrawal of financial support by donors; and (c) normally, that the member either (i) has a balance of payments need that is expected to be resolved within one year with no major policy adjustments being necessary, or (ii) lacks capacity to implement an upper credit tranche-quality economic program owing to its limited policy implementation capacity or the urgent nature of its balance of payments need. If a member has received a disbursement under the RCF within the preceding three years, then any additional disbursements under the RCF may be approved only where the Trustee is satisfied that: (i) the member’s balance of payments need was caused primarily by a sudden and exogenous shock, or (ii) the member has established a track record of adequate macroeconomic policies for a period of normally about six-months prior to the request; provided that (A) effective as of January 1, 2022, a member may not receive more than two disbursements under the RCF during any 12-month period; ~~and~~ (B) any disbursements between July 13, 2020 and December 31, 2021 shall not count towards the limit set forth in (A) above, **and (C) any disbursements made to address an urgent balance of payments need under Section II, Paragraph 2(b)(iv) shall not count towards the limit set forth in (A) above.**”

Section II, Paragraph 2(b) of the PRGT Instrument

“(b) Subject to the provisions in subparagraphs (i) to ~~(iv)~~ below, the access of each eligible member under the RCF shall be subject to an annual limit of 50 percent of quota, and a cumulative limit of 100 percent of quota, net of scheduled repayments, including where the assistance is requested to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock and the member’s existing and prospective policies are sufficiently strong to address the exogenous shock:

(i) each disbursement shall not exceed 25 percent of quota except where the member requests assistance under the RCF to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock (including a large natural disaster under (ii) below);

(ii) the annual and cumulative access limits under the RCF shall be 80 percent of quota and 133.33 percent of quota, net of scheduled repayments, respectively, where (a) the member requests assistance under the RCF to address an urgent balance of payments need resulting from a natural disaster that occasions damage assessed to be equivalent to or to exceed 20 percent of the member’s gross domestic product (GDP) and (b) the member’s existing and prospective policies are sufficiently strong to address the natural disaster shock. For the period from June 21, 2021 to December 31, 2021, the above annual access limit shall be 130 percent of quota and for the period from June 21, 2021 to June 30, 2023, the above cumulative access limit shall be 183.33 percent of quota, net of scheduled repayments;

(iii) a member’s request for assistance under the RCF to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock shall be subject to an annual access limit of 100 percent of quota for the period from April 6, 2020 to

December 31, 2021, and to a cumulative access limit of 150 percent of quota, net of scheduled repayments for the period from April 6, 2020 to June 30, 2023; ~~and~~

“(iv) for a period from September 30, 2022 to September 29, 2023, the Fund may approve financing of up to 50 percent of quota to help a member address an urgent balance of payments need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal exports shortfalls. Access under this subparagraph (iv) shall be fully additional to the annual access limits established under this subparagraph 2(b). A member’s access to financing under this subparagraph shall increase the cumulative access limit referred to in subparagraph 2(b)(iii) above to 175 percent of quota. Before approving financing under this window, the Fund shall be satisfied that the member has an urgent balance of payments need associated with one of the following:

(1) acute food insecurity that is inflicting serious economic disruption within the member on such a scale as to warrant a concerted international effort to support the member. In assessing the qualification of members under this subparagraph (iv)(1), the Executive Board would take into account whether the member faces acute food insecurity as defined by the Food and Agriculture Organization (FAO) and World Food Programme (WFP) or a major food crisis per the United Nations Global Report on Food Crisis (UNGRFC), in both cases, based on the most recent publicly available data; or

(2) increased prices of cereal or fertilizer imports that negatively impact the member’s external current account where such negative impact amounts to at least 0.3 percent of GDP over a 12-month period, as specified in more detail in SM/22/229; or

(3) cereal exports shortfalls, where the projected negative shock to cereal exports, benchmarked against the previous year, exceeds 0.8 percent of projected GDP for the compensable year; and”

(iv) outstanding credit by a member under the rapid-access component of the ESF or outstanding purchases from the General Resources Account under emergency post conflict/natural disaster assistance covered by Decision No. 12341-(00/117), shall count towards the annual and cumulative limits applicable to access under the RCF. With effect from July 1, 2015, any purchases from the General Resources Account under the Rapid Financing Instrument shall count towards the annual and cumulative limits applicable to access under the RCF.”