Executive Board Minutes 21/71-1

July 14, 2021–9:18 a.m.

Fund Concessional Financial Support for LICs—Responding to the Pandemic

Documents: SM/21/120, and Cor. 1, and Sup. 1, and Sup. 2, and Sup. 2, Cor. 1, and Sup. 3, and Sup. 4

Staff: Mumssen, FIN; Steinki, LEG; Nolan, SPR

Length: 2 hours, 32 minutes

ISSUED: August 23, 2022
APPROVAL: August 30, 2022

CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

THE CHAIR'S SUMMING UP

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.

EXECUTIVE BOARD DECISIONS

The Executive Board took the following decisions:

Fund Concessional Financial Support for Low-Income Countries-Responding to the Pandemic—Amendments to the PRGT Instrument for Overall Normal Access Limits, Temporary Increase in Annual Access Limit, Exceptional Access Criteria and Creation of the Subsidy Reserve Account and Deposit and Investment Account

The Instrument to Establish the Poverty Reduction and Growth Trust ("PRGT Instrument"), Annex to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, along with its Appendices, shall be further amended as follows:

1. Section I, paragraph 2 of the PRGT Instrument shall be amended to read as follows:

"Paragraph 2. *Accounts of the Trust*

The operations and transactions of the Trust shall be conducted through a General Loan Account, an ECF Loan Account, a SCF Loan Account, and a RCF Loan Account (the latter four accounts collectively referred to herein as the "Loan Accounts"), a Reserve Account, a General Subsidy Account, an ECF Subsidy Account, a SCF Subsidy Account, a RCF Subsidy Account, an ESF Subsidy Account, and a Subsidy Reserve Account (the latter six accounts collectively referred to herein as the "Subsidy Accounts"), and a Deposit and Investment Account. The resources of the Trust shall be held separately in these Accounts."

2. Section II, Paragraph 2(a)(A) of the PRGT Instrument shall be replaced with the following:

"(a)(A) Except as specified in sub-paragraph (B) below, the overall access of each eligible member to the resources of the Trust under all facilities of the Trust as specified in Section I, Paragraph 1(a) shall be subject to (i) an annual limit of 145 percent of quota; and (ii) a cumulative limit of 435 percent of quota, net of scheduled repayments. The Trustee may approve access in excess of these limits if all of the following criteria are satisfied:

(1) 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 resources under the Trust that cannot be met within the normal limits.

(2) Risks to the sustainability of public debt are adequately contained, which shall be evidenced by, and subject to, the standards set forth below:

I. 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 Bank-Fund Debt Sustainability Framework for Low-Income Countries (the "LIC-DSF") to be at low or moderate overall risk of public debt distress; or

II. Where the member's public debt is assessed to be sustainable but not with high probability (which includes cases where the member's overall risk of public debt distress is assessed to be high or in debt distress), or where the member's debt is assessed to be unsustainable ex ante, access to resources in excess of the normal limits 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 (generally considered to be met for countries that are assessed under the LIC-DSF to be at low or moderate overall risk of public debt distress) (i) within 36 months from Board approval in the case of a new arrangement under this Trust or a loan under the RCF, or within the period of the new arrangement, whichever is longer, or (ii) within the remaining period of an arrangement, in cases where the Board approves a request for an augmentation or a rephasing of access under the arrangement;

(3) The member does not meet the income criterion for presumed blending, as set forth in paragraph 1(a) of Decision No. [new decision on blending], at the time of making a request for resources under this Trust in excess of the access limits set forth in paragraph 2(a)(A) above; and

(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."

3. Section II, Paragraph 2(a)(B) (i) to (iii) shall be replaced with the following:

"(a)(B)(i) During the period from March 22, 2021 to December 31, 2021 (the "Applicable Period"), the annual access limit shall be 245 percent of quota for financing approved through December 31, 2021 (the "Eligible Financing"). For the computation of the annual access under the above specified "Eligible Financing", the annual access limit of 245 percent of quota shall apply for any 12-month period that includes any part of the "Applicable Period".

(a)(B)(ii) Notwithstanding the increase in access limits set forth in Paragraphs 2(a)(A) and 2(a)(B)(i) above, a member's access to PRGT resources approved under an arrangement in place prior to September 9, 2020 that was exempted from the application of Policy Safeguards for High Combined GRA and PRGT Credit set forth in Decision No. 16873-(20/91) will remain subject to observance of the access limits and criteria for exceptional access to the PRGT that were in effect at the time of approval of such arrangement; if access under such an arrangement is augmented, the provisions in paragraphs 2(a)(A) and 2 (a)(B)(i) shall apply to such an arrangement."

4. The references in Section II, paragraphs 4(a) and 4(b) to "Section IV, paragraph 5" shall be replaced with references to "Section IV.A, paragraph 5".

5. The references in Section III, paragraphs 1(b)(ii), 1(c)(iii), 1(d)(ii) and 1(e)(ii) of the PRGT Instrument to "Section V, paragraph 3 of this Instrument" shall be replaced with a reference to "Section IV.A, paragraph 4(g) and Section V, paragraph 3 of this Instrument".

6. In Section III, paragraph 4(b) of the PRGT Instrument, the reference to "Section IV" shall be replaced with a reference to "Section IV.A".

7. In Section III, paragraph 4(c), first sentence, "June 30, 2024" shall be replaced with "June 30, 2029."

8. In Section III, paragraph 5(a) of the PRGT Instrument, the reference to "Section IV" shall be replaced with a reference to "Section IV.A", the words "Subsidy Reserve Account and" shall be inserted before the words "Reserve Account" and the words "Section IV.A and" shall be inserted before the words "Section V".

9. Section IV of the PRGT Instrument shall be renumbered as Section IV.A.

10. A new paragraph 1(f) shall be inserted into Section IV.A of the PRGT Instrument to read as follows:

"(f) The resources held in the Subsidy Reserve Account shall consist of:

(i) the proceeds of donations made to the Trust for the Subsidy Reserve Account;

(ii) the proceeds of loans made to the Trust for the Subsidy Reserve Account;

(iii) transfers from the Deposit and Investment Account in accordance with Section IV.B, paragraph 3 of this Instrument;

(iv) net earnings from investment of resources held in that Account;

(v) payments of overdue principal or interest or interest thereon under Trust loans, and payments of interest under Trust loans to the extent that payment has been made to a creditor from the Subsidy Reserve Account; and

(vi) repayments of the principal under Trust loans, to the extent that resources in the Subsidy Reserve Account have been used to make payments to a creditor due to a difference in timing between scheduled principal repayments to the creditor and principal repayments under Trust loans."

11. New paragraphs 4(f) and 4(g) shall be inserted into Section IV.A of the PRGT Instrument to read as follows:

"(f) The Trustee shall draw upon the resources available in the Subsidy Reserve Account to:

(i) pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for loans under the facilities of the Trust specified in Section I, Paragraph 1 of the Instrument, provided that resources available in the Subsidy Reserve Account shall be drawn only if there are no other resources available in the relevant Subsidy Accounts for these purposes; or

(ii) to make payments of principal and interest on its borrowing for Trust loans, to the extent that the amounts available from receipts of repayments and interest from borrowers under Trust loans, together with the authorized subsidy under Section IV.A, paragraph 4, are insufficient to cover the payments to creditors as they become due and payable, provided that resources available in the Subsidy Reserve Account shall be drawn upon for these purposes only if there are no other resources immediately available in the Reserve Account.

(g) Any repayment of principal under Trust loans, to the extent that repayment to a creditor has been made from the Subsidy Reserve Account due to differences in timing between scheduled principal repayments to the creditor and principal repayments under Trust loans, any payments of overdue principal or interest or interest thereon under Trust loans, and any payments of interest under Trust loans to the extent that payment has been made to a creditor from the Subsidy Reserve Account, shall be made to the Subsidy Reserve Account."

12. In Section IV.A. of the PRGT Instrument, the following sentence shall be added at the end of paragraph 6(b)(i): "Any resources attributable to transfers from the Deposit and Investment Account shall be transferred to that Account."

13. In Section IV.A of the PRGT Instrument, paragraph 6(b)(vi) shall be renumbered as paragraph 6(vii) and a new paragraph 6(b)(vi) shall be inserted to read as follows:

"(vi) Any resources remaining in the Subsidy Reserve Account shall be used in a manner consistent with paragraph 4(f) of this Section to reduce to the fullest extent possible the interest rate paid by borrowers in accordance with Section II, paragraphs 4(a), (b), and (c) on loans from the PRGT, by means of payments to such borrowers. Any resources remaining after that subsidization and not attributable to the Deposit and Investment Account shall be transferred to the General Subsidy Account, provided that a contributor may request that its share in any remaining resources be returned to it. Any resources attributable to transfers from the Deposit and Investment Account shall be transferred to that Account."

14. A new Section IV.B shall be inserted into the PRGT Instrument to read as follows:

"Section IV.B Deposit and Investment Account

Paragraph 1. *Purpose and Resources*

The purpose of the Deposit and Investment Account is to provide a separate vehicle under which the Trust can borrow resources to generate net investment earnings for the benefit of the Subsidy Reserve Account or, at the request of a contributor, the General Subsidy Account. The resources held in the Deposit and Investment Account shall consist of the proceeds from deposit and other investment agreements with contributors and the net earnings on the investment proceeds.

Paragraph 2: *Borrowing for the Deposit and Investment Account*

(a) The Trustee may enter into deposit and other investment agreements for the benefit of the Deposit and Investment Account with the aim of generating net investment earnings from the investment of the resources borrowed. For this purpose, the Managing Director of the Trustee is authorized to enter into deposit and other investment agreements and agree to their terms and conditions with contributors to the Deposit and Investment Account. The borrowed resources shall be invested in accordance with guidelines adopted by the Trustee.

(b) The agreements may provide for the right of a contributor to request the early repayment of the principal amount under its deposit or investment agreement upon representation of a balance of payments need. The contributor shall reconstitute any withdrawn amount as its balance of payments and reserve position improves.

Paragraph 3: *Use of Resources*

(a) Resources in the Deposit and Investment Account derived from net investment earnings shall be transferred to the Subsidy Reserve Account at the final maturity of the deposit and investment agreement such resources are attributable to; provided that, with the consent of the contributor, the Managing Director is authorized to transfer to the Subsidy Reserve Account at an earlier time resources attributable to that contributor's deposit or investment agreement, to meet the subsidization needs of the Trust.

(b) A contributor may prescribe that investment earnings in the Deposit and Investment Agreement attributable to that contributor's investment be directed to the General Subsidy Account instead of the Subsidy Reserve Account.

Paragraph 4: *Termination Arrangements*

Upon completion of the subsidy operations authorized by this Instrument, the Trustee shall wind down the affairs of the Deposit and Investment Account. Contributors shall be repaid the principal of their deposits or investments and any remaining investment earnings or losses attributed to it.

Paragraph 5: *Repayment of the principal amount and payment of interest to a contributor*

Repayment of the principal amount and any payment of interest to a contributor on any borrowing for the Deposit and Investment Account, including repayment upon maturity, early repayment in accordance with Section IV.B, paragraph 2(b), or repayment in accordance Section IV.B., paragraph 4, shall be made exclusively from resources attributed to the deposit or other investment of this principal amount and the net investment earnings thereon, net of the cumulative interest previously paid to the contributor."

15. In Section V, paragraph 2 (a), the reference to "Section IV" shall be replaced with a reference to "Section IV.A".

16. Section VIII, paragraph 2(a) shall be amended to read as follows:

"(a) Termination and liquidation of the Subsidy Accounts shall be made in accordance with the provisions of Section IV.A, paragraph 6. Termination and liquidation of the Deposit and Investment Account shall be made in accordance with the provisions of Section IV.B, paragraph 4."

17. In Section IX of the PRGT Instrument, the reference to "Section IV" shall be replaced with a reference to "Section IV.A" and the words "Section IV.B;" s hall be inserted before the words "Section V". (SM/21/120, Sup. 2, 07/08/21)

Decision No. 17079-(21/71), adopted
July 14, 2021

Fund Concessional Financial Support for Low-Income Countries-Responding to the Pandemic—Review of Interest Rate Structure

1. In accordance with Section II, paragraph 4(b) of the Instrument to Establish the Poverty Reduction and Growth Trust (the "PRGT Instrument"), annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, the Fund, as Trustee of the Poverty Reduction and Growth Trust (the "Trustee"), has reviewed the interest rates for loans under the Extended Credit Facility ("ECF") and the Standby Credit Facility ("SCF").

2. In Section II, paragraph 4(a) of the PRGT Instrument, the reference to "July 1, 2019" shall be replaced with a reference to "August 1, 2021".

3. In Section II, paragraph 4(b) of the PRGT Instrument, the reference to "July 31, 2021" shall be replaced with a reference to "July 31, 2023". (SM/21/120, Sup. 2, 07/08/21)

Decision No. 17080-(21/71), adopted
July 14, 2021

Fund Concessional Financial Support for Low-Income Countries-Responding to the Pandemic—Amendment to PRGT Borrowing Limit

The Managing Director, having consulted with all creditors of the Poverty Reduction and Growth Trust (PRGT), is authorized to confirm that she does not intend to enter into borrowing agreements for the Loan Accounts of the PRGT if the cumulative commitments under such agreements exceed SDR 68.0 billion, except after consultation with all PRGT creditors regarding the justification for such additional borrowing and the adequacy of the PRGT's Reserve Account in relation thereto. (SM/21/120, Sup. 2, 07/08/21)

Decision No. 17081-(21/71), adopted
July 14, 2021

Fund Concessional Financial Support for Low-Income Countries-Responding to the Pandemic—Blended Access to Financing Under the PRGT and the GRA

1. A member that is included in the list of members annexed to Decision No. 8240-(85/56) SAF, as amended (i.e., a member eligible for financing under the Poverty Reduction and Growth Trust (PRGT), hereinafter "member") is a "Presumed Blender" in accordance with the criteria set forth below:

a. Income: A member meets the income thresholds for presumed blending if its annual per capita gross national income (GNI) has exceeded the prevailing operational cutoff for assistance from the International Development Association (IDA) by at least 5 percent for two consecutive years (the "income threshold"). Once a member has met the income threshold, it shall be deemed to continue to meet the threshold unless its annual per capita GNI falls below 95 percent of the IDA operational cut-off.

b. Absence of debt vulnerabilities that limit market access: A member that meets the income threshold as defined in Paragraph 1.a shall be presumed to blend unless it faces debt vulnerabilities that limit its access to international financial markets. A member will be considered to face debt vulnerabilities that limit its access to international financial markets if it is (i) in debt distress or (ii) at high risk of debt distress *and* either (a) does not meet the criterion of capacity to access international financial markets on a durable and substantial basis for the purpose of graduation from the PRGT eligibility as set forth in Paragraph 1(C)(1)(ii) of Decision No. 14521-(10/3), adopted January 11, 2010, as amended (the "PRGT Eligibility Decision") or (b) is a "small country" or a "microstate", as such terms are defined in paragraph 1 (D) of the PRGT Eligibility Decision.

2. A request by a Presumed Blender for access to PRGT resources shall be approved only in a blend with access to resources in the General Resources Account (GRA). The mix of PRGT and GRA resources shall be provided in a ratio of one to two of PRGT resources to GRA resources, subject to a cap on access to PRGT resources of 145 percent of quota per arrangement and subject to the overall limits on access to the PRGT set out in Section II, Paragraph 2 of this Instrument. (SM/21/120, Sup. 2, 07/08/21)

Decision No. 17082-(21/71), adopted
July 14, 2021

Fund Concessional Financial Support for Low-Income Countries—Responding to the Pandemic-PRG Trust Reimbursement for FY 2022-2026

Notwithstanding paragraph 3 of Decision No. 8760-(87/176), adopted on December 18, 1987, for financial years FY2022 through FY2026, no reimbursement shall be made to the General Resources Account from the Reserve Account of the Poverty Reduction and Growth Trust ("PRGT") for the cost of administering the PRGT. (SM/21/120, Sup. 2, 07/08/21)

Decision No. 17083-(21/71), adopted
July 14, 2021

EXECUTIVE BOARD ATTENDANCE[2]

K. Georgieva, Chair

Executive Directors	**Alternate Executive Directors**
I. Mannathoko (AE)	
	F. Sylla (AF)
	L. Herrera (AG)
C. Huh (AP)	
A. Bevilaqua (BR)	
Z. Jin (CC)	
P. Moreno (CE)	
	F. O'Brolchain (CO)
	C. Just (EC)
A. Buisse (FF)	
R. von Kleist (GR)	
	N. Thiruvenkadam (IN), Temporary
D. Fanizza (IT)	
T. Tanaka (JA)	
	M. El Qorchi (MD)
	A. Alhosani (MI)
	L. Dresse (NE)
M. Poso (NO)	
A. Mozhin (RU)	
M. Mouminah (SA)	
R. Lim (ST)	
	M. Peter (SZ)
S. Riach (UK)	
E. Shortino (US)	

C. Ogada, Secretary
H. Malothra, Summing Up Officer
D. Jiang / A. Lalor, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: M. Kamel Farid Mohamed Farid, H. Teferra. Asia and Pacific Department: W. Bauer Stampfli, E. Dabla, A. Gulde, A. Scott. Communications Department: N. Ismail, J. Lundgren, W. Murray. European Department: A. Schaechter. Fiscal Affairs

[2] For countries in each constituency, please see the Constituency Codes in the annex.

Department: M. Nose, A. Senhadji. Finance Department: P. de Imus, G. Fernandez, N. Ferreira Souza Sobrinho, C. Gust, L. Kaltani, T. Krueger, B. Lauwers, K. Monasterski, C. Mumssen, Z. Murgasova, W. Rahman-Garrett, V. Rustaman, I. Rutkowska. Institute for Capacity Development: M. Erbenova, R. Nord. Independent Evaluation Office: C. Collyns. Legal Department: C. DeLong, M. Henriquez, K. Kwak, Y. Liu, G. Mathias Alves Pinto, G. Otokwala, H. Pham, G. Rosenberg, B. Steinki. Middle East and Central Asia Department: C. Geiregat, N. Gigineishvili, E. Mottu, N. Porter. Monetary and Capital Markets Department: U. Das. Office of Risk Management: B. Boultwood. Strategy, Policy, and Review Department: G. Chabert, S. Gupta, B. Joshi, K. Lee, G. Lisi, W. McGrew, N. Meads, T. Mineyama, S. Nolan, C. Pazarbasioglu Dutz, U. Ramakrishnan, D. Singh, K. Tokuoka, R. Turk. Statistics Department: C. Sanchez Munoz. World Bank Group: B. Gamarra Flores, T. Sundararaman. Western Hemisphere Department: P. Alonso-Gamo, N. Laframboise. Executive Directors: A. Andrianarivelo (AF), S. Chodos (AG), M. Mahmoud (MI), D. Palotai (EC). Alternate Executive Directors: B. Alhomaly (SA), H. Azal (EC), F. Fuentes (BR), A. Grant (AP), A. Guerra (CE), Y. Indraratna (IN), M. Kashima (JA), M. Massourakis (IT), K. Merk (GR), F. Mochtar (ST), W. Nakunyada (AE), R. N'Sonde (AF), O. Odonye (AE), L. Palei (RU), J. Romero (CE), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), C. White (AP). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), A. Ekelund (NO), J. Garang (AE), M. Gilliot (FF), R. Goyal (IN), P. Harvan (EC), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), R. Mahabir (BR), Z. Mahyuddin (ST), M. Maidi (AE), S. Naka (JA), T. Nguema-Affane (AF), C. Quaglierini (IT), J. Rojas (CE), H. Saeed (SA), C. Sassanpour (MD), L. Smith (CO), R. Velloso (BR), L. Voinea (NE), J. Weil (CO), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Gonaya Basutli (AE), B. Boostani (MD), D. Cools (NE), J. Corvalan (AG), K. Dacharux (ST), O. Diakite (AF), R. Edwards (CO), D. Fadhel (MI), K. Florestal (BR), Rachel Lyngaas (US), T. Iona (AP), Y. Kikucji (JA), H. Koh (GR), T. Krahnke (GR), V. Lankester Campos (CE), M. Merhi (MI), R. Moral Betere (CE), A. Nainda (AE), L. Nankunda (AF), K. Nelson (UK), K. Osei-Yeboah (MD), T. Persico (IT), B. Piasecki (SZ), A. Ribeiro Mateus (IT), D. Shestakov (RU), B. Singh (IN), Y. Yang (CC), J. Yoo (AP), R. Gindrat (SZ), F. Lopez (CE), E. Comolet (FF).

DISCUSSION RECORD[3]

The Chair:

Today, we are talking about the concessional financial support for low-income countries as they wrestle with the impact of the pandemic, but many of them also with other vulnerabilities.

We are starting the meeting in a very good position because all Directors have issued gray statements. There has been a very extensive engagement that staff has had with Directors' offices, incredibly important to bring us to a point of building consensus for the decisions that we would take. We have had a series of productive discussions over the last months, and the proposals that are in front of Directors reflect that. They are particularly important for bringing us together on two core issues. How should Fund policies on lending for low-income countries be modified to better fit the needs of our poorest members, as they seek to come out of the pandemic but also to build more sustainable growth prospects for the future? And secondly, how can the financial position of the PRGT be repaired given the unprecedented levels of concessional financing that we have already provided and the likelihood that we may be providing in relative terms more funding during the period of exiting the pandemic, recovering from it?

We all know that the Fund has two pillars for its financing, General Resources Account (GRA) resources and Poverty Reduction and Growth Trust (PRGT), and we ought to make sure that in both cases we are in a strong position to serve the membership.

There are workstreams examining the feasibility of additional vehicles through which the Fund might support its less-well-off members, including in areas of vaccine financing, building resilience to shocks, tackling climate-related challenges. These are workstreams we will be discussing in the coming weeks. The centerpiece of our work with low-income countries has been and will continue to be the concessional financing facilities of the PRGT, and that makes the meeting we have today so very important.

I am extremely grateful to all Directors for the substantial progress we have made since our June 2 discussion towards identifying a policy reform and financing package that can command broad support, and we have sought to base the documents and decisions before you on the basis of this package. So what we have is a general agreement that the Fund should have adequate

[3] Edited for clarity.

room to provide the needed support to low-income countries for them to implement—and I stress that—high-quality economic programs to drive the recovery from the crisis and that programs in countries facing heavy debt burdens need to pay special attention to risks to debt sustainability and capacity to repay super senior debt to institutions like the Fund, as well as the World Bank.

There was also broad support for a two-stage approach to rebuilding PRGT finances, articulated in the staff paper from our discussion on June 2. Although some Directors would have preferred stronger actions up front, including from donor pledges or more use of the Fund's internal resources, at the same time, several Directors flagged the risks associated with the first stage of the funding strategy, and I share this concern. We have sought to mitigate these risks by doing the following:

First, fleshing out a clear broad-based burden-sharing fundraising proposal, very important, with multiple mechanisms for donors to provide support in a flexible timeline for delivering on commitments, recognizing that the next couple of years are going to be very difficult. How can we take a longer time horizon so as to make the call from Directors more possible to answer?

Secondly, committing to vigorous efforts to secure pledges on commitments by the time of the Annual Meetings, and I will lead this effort myself. I actually took advantage of the G-20 meeting on the sideline to talk about that, and I was very encouraged that with that flexibility I talked about, I think we are in a good place to deliver the necessary commitment size to move forward.

Third—and the third is very important—implementing intensified oversight of PRGT finances by means of a comprehensive annual review and Board discussion and taking appropriate remedial actions if they are necessary to protect our targets for a concessional facility. There are competing demands on Directors, and quite a number of Directors have noted that. That means at this point of time, we have to recognize that the Fund is one of the institutions that are there to help our members.

What I do hope is that we would see the well-thought financial strategy with a well-calibrated timeline as a response to that concern of competing demands and that the Fund is expected to be there, especially after stepping up so decisively with its support to provide $13 billion in financial support for low-income countries in 2020 from less than 2 billion in pre-pandemic years. We want to be able to step up when necessary. Hopefully we would be in a better time ahead, but we should be in a position to act when this action is called for. I believe now we need to finalize our in-depth review of how the Fund can best support low-income countries at this exceptionally difficult for everybody, but especially for the weakest members, time. So I hope we will move ahead with the strategy forged through repeated consultations with the Board.

We have an improved policy framework to guide our lending to low-income countries that would provide us with flexibility for the period ahead. We have a plan to tackle PRGT finances with the two steps we discussed, and we have the clarity that our funding only matters when countries become stronger through reforms.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Nolan):

I would like in my remarks to cover a few broad points that Directors made in gray statements and then pass on to Mr. Mumssen.

A first point that I think was worth picking up on is a point made by Mr. Palotai and others in their gray statement, where they ask whether staff can provide further information on the proposed surge in IMF lending and how it fits with the multilateral development banks (MDBs), the RFAs, bilateral donors, which is a good question. However, I wanted to clarify that there is not a proposed surge in Fund lending. There is a projected surge in Fund lending. The policy changes we are discussing today are minor contributors to the actual dramatic growth of the Fund's lending over time. It has been driven by the demand side not by incremental policy changes, and as the Managing Director underscored in the last Board meeting, the Fund does not have targets for lending. It wants to be in a position to respond to demands from members.

We issued a supplement on Monday. I would have liked to issue it two weeks earlier, but we did not have time to finish it. And it shows I think rather interesting picture on the role of the Fund vis-a-vis the other MDBs. We did not look at the RFAs or the bilateral donors. The bilateral donors' official development assistance rose about 5 percent in LICs last year, about $2 billion. Next year, I would predict it to be much the same or maybe a bit different. There is not a lot of action in that space, and there is even less action in many of the regional financial agreements, Chiang Mai being an obvious case in point.

We just focused on comparing with the MDBs, and the numbers there are commitment numbers. They show how the Fund's share of commitments rose very sharply in 2020. Our share of actual lending would have increased even more because we are the one entity, the fire engine that is able to respond with money very quickly; and through the MDBs lending through projects, et cetera, money is disbursed over time. That share falls over time and will continue to fall over time as the MDBs scale up.

What is striking also in the charts in that supplement is the scaling up of IDA, which is already well underway with the compression of IDA19 into a two-year period from three. I would just leave that there, the supplement there, as sort of an answer to that question, an excellent question I should stress.

On the question of whether or not this is consistent with the role of preserving the catalytic role of the Fund, it is important to distinguish between the Fund's catalytic role at the micro level and at the macro level. At the micro level, anyone who is involved in program negotiations knows that Fund's lending in LICs in particular is really decisive for triggering contributions from donors, from the MDBs, disbursements of DPLs, et cetera. There is no question that at level the catalytic role is key. At the aggregate level, if the Fund has 40 programs with developing countries, our scope for catalyzing extra ODA or expanding IDA is quite limited. The catalytic role is a micro role, not a macro role. I think that point is probably worth internalizing.

A second point that was made in the comments in the gray statement by Mr. Palotai, was the question on whether staff see a concern that the seal-of-approval character of Fund programs would suffer if access to Fund lending is scaled up substantially while the strength of conditionality would not be increased commensurately. I think the Managing Director has stressed that the kind of support, large levels of support that are projected are conditional upon delivering strong economic programs.

I do not think the seal of approval is weakened by the Fund lending. I think the seal of approval is weakened by the Fund supporting poorly designed programs that fail. So, the response to the question of maintaining the seal of approval is delivering on high-quality programs that have very solid prospects for delivering strong results.

A third question posed in that gray statement and echoed by others was welcoming the proposals to look more carefully at public debt and its evolution, composition, looking at the role of super senior debt in particular. This is laid out in annex in the paper, and the question was how will these risks be addressed, and will we develop specific guidance?

I think the key motivators for the proposals in the annex are, firstly, transparency and visibility, visibility both to staff and to the Board on what exactly will happen to official sector debt, in particular multilateral sector debt over time. How that is handled is a complex issue because there is no ideal level of super senior debt vis-a-vis other forms of debt. We would expect the poorest countries to have a lot of bank debt and Fund debt, et cetera. Whereas countries further up the development path, we would expect that to decline substantially as private sector sources of funding kick in.

What the proposals in the annex do is to seek to put those trends in the composition of debt clearly in the mirror, so to speak, so the staff and the Board are clearly aware of what is going on and, secondly, to put that in a comparative context by showing the evolution of key indicators vis-a-vis other programs so that we can get a sense of what fits and what does not.

As to how we respond, we will be developing guidance. We really have to think through a lot of the economics here because I do not think the answers on what is the appropriate level of super senior debt are obvious, and that will take some time. We are busily engaged in developing a template on how to present debt composition with the various components of it over time, what to look at in terms of a comparisons and across different countries, across different programs. We have to be cautious in this, in labeling debt here, so we will see in these tables, we will see debt labeled by institution or by the existence of, say, unrelated collateral. We will not see staff distinguishing different categories of seniority debt because, of course, the last thing the Fund wants to do is to be seen as seeking to issue prognostications on what is more senior relative to other forms of debt, aside from our own, in the context of potential negotiations. That is an issue that is actively under discussion between SPR and the area departments.

Two last questions I wanted to touch on: some Executive Directors expressed concern about the issue of relaxing or merging the exceptional access criteria for the PRGT with the policy safeguards, and they pick up on the fact that the requirement would no longer insist on debt restructuring but instead would say that we have to deliver a moderate risk of debt distress. The logic of the staff position here, in economic terms, is that the end result is the same, delivering moderate low risk of debt distress. In the vast preponderance of cases, this will be involved debt restructuring; but in some cases—let's call them the Jamaica option—we will see situations where countries seek to achieve this through fiscal adjustment. We did not wish to restrict the ways of reaching low or moderate risk of debt distress to debt restructuring. That is why we do not see that actually as a factor that significantly changes the risk associated with high access in the PRGT.

I should argue a second process point here, which is that the Board looked at the question of what will be a reasonable set of safeguards for PRGT-eligible countries, borrowing 145, 435 percent of quota in the policy safeguards, and the conclusions of the policy safeguards are the conclusions of the Board of what was an appropriate set of safeguards; so converging the exceptional access criteria onto those policy safeguards is consistent with the Board's previous statements on this position.

Lastly, with three different sets of exceptional access criteria, there is too many.

One last point. A number Directors expressed concern about the lack of a cap on access limits on PRGT, the poorest countries. We do not see this happening very often. We do not see very large programs in PRGT way above the 435 cumulative access limits frequently. We have seen one, the Ethiopia program, and there we know it was capped at 400 PRGT, 300 GRA. I am not sure that this was a good outcome compared to the alternative of given the quality of the Ethiopia program, and given the modest scale of Ethiopia's quota, this was not the outcome of delivering 700 would have been better than delivering 400.

The Deputy Director of the Finance Department (Mr. Mumssen):

So last night we sent written answers to all of the questions on funding, but I want to come back to three points which have also come up a lot in our bilateral outreach. The first one is a couple of clarifications on the two-stage strategy itself.

Stage one, what does it really finance? It is very important to clarify that it finances entirely all pandemic-related lending, so the gap that we have identified essentially is related to lending that has already happened to some extent with the RCF but also the demand we see for multiyear programs, which will have an impact on both the subsidy and loan account for a decade or more.

As you saw in the paper, the targets—and this is unchanged from June 2—are to raise an additional 12.5 billion SDR in PRGT loan resources, and that is on top of the SDR 17 billion that we are very grateful to 16 of our member countries' authorities for already having provided since the outbreak of the pandemic and then another 2.8 billion SDR in subsidy resources, of which SDR 0.5 billion comes from the suspension of GRA reimbursement through FY2026, and the remainder would come from bilateral fundraising.

The subsidy gap that we identified, just to be clear, it is almost entirely driven by demand. That means by the large number of countries coming forward and their large financing needs. The additional policy changes proposed today, they do make a difference, but it is a very small one actually compared to the overall gap created by demand.

As I think we all agree, uncertainty about demand is actually exceptionally high because the pandemic is still evolving; it is still mutating, and so will the economic situations of countries. It is very hard to now say what is the appropriate longer-term lending envelope, so our fundraising target for subsidy resources assumes we leave a basic PRGT envelope that we have long flagged as the minimum we need to this, which is 1.65 billion a year, but then we will come back after that uncertainty has resolved and in the review of LIC facilities and financing planned for 2024-25, we can then discuss what is actually the appropriate size of the PRGT and the appropriate lending envelope. And then, of course, as we know, stage one of the funding strategy for subsidy resources is really coming from suspension of GRA reimbursement and bilateral contributions; and, in stage two of the funding strategy, if there are more funding needs, that is also when the issue will come back to discuss possible use of Fund internal resources.

I just want to highlight again on the two-stage funding strategy, one point we have been asked a lot is about SDR channeling. So these numbers have moved around, and so our latest estimate is that the PRGT actually could lead to channeling of between 24 to 34 billion SDR if we add up this loan round, the next loan round, which could be around the time of the next review in 2024, and then the fairly large volume of investments in the PRGT that we might see, and I will come back to the investment point in a second.

That was on the two-stage strategy. The second issue I wanted to just draw out a little bit more is the bilateral fundraising that is 2.3 billion SDR for subsidy resources that we need to secure. In the paper, we have fleshed out in detail let's say an illustration of how we think the burden-sharing could make sense. It is proposed that management would approach 61 economically stronger countries. We have laid out the methodology for that choice, and these countries represent 88 percent of the Fund's quota, and these countries have been instrumental in the past in funding the PRGT. In fact, they have already provided in the past over the decades 5 billion SDR in subsidy contributions in various ways.

Now, we have heard from many Directors that obviously budgets are tight, so there was a lot of interest in what are the different flexibilities, modalities, and timing, and the Managing Director has just alluded to that. We tried our best to think of new ways of providing subsidy resources, and I should say that we basically have four different options. One option is outright budget grants which could be disbursed over a number of years. Another one is well-known by the first speaker in the moment, that is the famous subsidized PRGT loan, which is actually very significant over time. So, again, not in any given year, but if we think of the fact that these are ten-year loans, and we might have a couple of loan rounds over time that can generate significant subsidization capacity for the PRGT, then a third option would be some donors may be able to essentially donate some of the interest earnings they have on their SDR holdings. That is not possible for many others because of institutional requirements.

Then the fourth option is investment. And here I just want to flag this is actually where we put in a lot of work between June 2 and today. We had huge teams from Legal and Finance and even our Statistics Department colleagues were involved in that, and it culminated in the proposal to create a new account that we call the Deposit and Investment Account (DIA), so this is meant to be essentially a new vehicle for channeling SDRs or other currencies into long-term investments that would generate returns for PRGT subsidization over time.

Members who place resources in the DIA would be remunerated either at a fixed or a floating rate. The investment agreements would naturally be long term because they are meant to accumulate these excess earnings, so that will take time, at least ten years, I would say. Then, of course, there could be the option of having a flexible maturity schedule in a sense to sort of link the maturity to the achievement of the subsidy contribution goal. So the resources we hold in the DIA, they could be invested alongside the investment strategy for the other assets in the subsidy accounts and in the reserve account, or, hopefully, if the pool is large enough and if there are sufficiently many members interested in placing money in the DIA, then we probably could develop a separate investment strategy that has sort of the best risk return profile for the DIA.

Importantly, members' claims on the DIA could be counted as international reserves because a contributor to the DIA could encash its claim in the event it experiences balance of payments needs, and the investment strategy for the DIA would ensure adequate quality and liquidity of the asset pool. So we will reach out to many Directors, anyone who is interested, potential contributors, and will discuss what are sort of different members' institutional preferences and constraints; and on that basis eventually we will come back to the Board with a firm proposal on how to exactly handle the investment strategy for the assets. As I said, it very much depends on how much interest there is and what the scale of investment is.

The second account in a sense is a no-brainer because many Directors have said, especially the lenders have said, if we have this high level of credit outstanding, it is important we have enough reserve coverage, so the proposed Subsidy Reserve Account is an additional subsidy account, so it can receive grants and also the investment returns from the DIA, but it has the dual role of providing a second line backstop behind the Reserve Account. This is in a sense a bit theoretical because at the moment the Reserve Account has ample resources, but essentially it provides a backstop and gives us more reserve coverage. We have explained a little bit more in the written answers why we think this is a very good structure.

Finally, let me close by just mentioning one thing that is on many members' minds--the safeguards to the concessional financing strategy. I want to make one point that I think sometimes is a bit underplayed, and maybe we have not explained it enough. We have a few examples in the paper. But the fact that we have a two-stage strategy, that in and of itself is already a very significant safeguard. It is so because essentially this strategy can absorb moderate deviations from our assumptions, that is both on the lending side and on the fundraising side and interest profile and demand and all of this, so the two-stage strategy—and we have given a few examples—what if fundraising falls short by X or lending is higher by Y, most of this could be dealt with in the second stage in the review 2024-25. However, it is, of course, true that with uncertainty so high, we do need a very firm monitoring mechanism, and we have therefore proposed and committed to conduct actual annual Board reviews of the state of PRGT finances, and we have laid out in the Board paper the forward-looking element of that, the assessment element, and a quite long list of potential contingency measures.

Ms. Riach:

Turning to the issues of the day, we very much thank staff for the paper and for all the work that has gone into getting us to this point. This Board discussion is the culmination of the review and of several Board discussions, and at this stage I think our views are pretty well-known. We also issued a joint gray statement with my friends, Mr. Bevilaqua, Mr. Buisse, and Mr. Fanizza, in which we offered our wholehearted support for the package that is on the table, both the proposed reforms to the PRGT and the two-stage funding strategy.

We believe that the proposed reforms to the PRGT will ensure that it is fit for purpose and will provide increased flexibility to allow the Fund to step up to support low-income countries at this very difficult time. Having said that, I very much share the view expressed by many Directors that programs must continue to be designed according to individual country needs, that they must continue to seek to catalyze a broad range of financing, that they must consider the ability of countries to repay, and overall debt levels.

Nonetheless, previous staff analysis has shown the size of the potential funding gap that low-income countries are facing, and in order to support low-income countries in meeting immediate humanitarian needs, in addressing development goals, and in resuming convergence with advanced economies, it is essential that the Fund has this increased flexibility. We, therefore, very strongly support the proposed reforms on the table.

On the two-stage financing package, we think that this represents a pragmatic approach. Mr. Mumssen talked about the very high levels of uncertainty at the moment given the uncertainty around the forecast for the global economy and uncertainty around the trajectory of the pandemic in low-income countries. The two-stage approach allows us to move forward providing the support to low-income countries that they need now and allowing us to focus on the short-term fundraising needs. We need to also be realistic about the challenges of the fundraising. SDR channeling has the potential to provide significant increases in loan resources to the PRGT, and Ms. Shortino in her gray statement talked about the fact that the US is considering this and the UK and a number of other countries have a track record of rechanneling SDRs in this way.

To my mind, this is where staff work on a potential dual interest rate model for the PRGT works, comes into play. If we saw significant increases in loan resources for the PRGT, then a model which allowed presumed blenders to borrow exclusively from the PRGT but potentially at differentiated interest rates becomes an interesting model to look at. With or without that change, we know that we have real constraints with the subsidy resources, so we very much welcome staff work to consider all possible options, and we welcome the proposal for two new accounts which is on the table today to make it easier for members to contribute to subsidy resources.

There is still a huge challenge ahead of us. The sorts of numbers of grant financing that the US have talked about are not sufficient to cover their share of the subsidy resources. The UK is already doing a significant amount here, as Mr. Mumssen said, through subsidized PRGT loans. The prospect of a significant increase in the UK contribution is very difficult to envisage. I am happy to kick off this phase with a fundraising effort, but I am not enormously optimistic about where we are going to get to with that, and that is why I do think it is important to look at gold sales and to look at the possibility of a gold pledge, which is mentioned in the paper. I just do not understand the argument that we should not be looking at this because it is difficult, and it is going to take a long time. The fact that it is difficult, and it is going to take a long time is exactly why we need to be starting to look at it now.

Finally, I just want to say a word on the CCRT. It is disappointing that we do not yet have sufficient grant financing in place for the very much needed fourth tranche of CCRT relief, so we do ask those who have not yet contributed to look at it again and consider what might be possible. Failure to deliver the fourth tranche will mean that the very poorest members have to start making repayments to the Fund in October. This will have significant implications for their humanitarian efforts, for their financing position, but also potentially have reputational implications for the Fund.

The Chair:

I actually thought that Ms. Riach’s contribution was very constructive and putting us on a good path for the meeting we have today. I want to pick up on her point on the CCRT. There is an urgency. I have been appealing for us to recognize that unfortunately the future is not yet bright for low-income countries and that we do need to step up to deliver on the last tranche. Again, at my bilateral G-20 meetings, I made a similar appeal to those who have not pledged; to those who have pledged, they can do a little bit more.

Mr. Tanaka:

I appreciate the Managing Director's comment on the G-20 Venice meeting discussion on various topics, including SDR allocation proposal, which is now under the process of endorsement among Governors. Our appreciation and congratulations would go to Domenico Fanizza for a series of great achievements by Italy last weekend. We commend staff for the strenuous effort to present the final proposals after the intensive discussion in several Board meetings over a year. Japan has been and will keep strongly supporting the Fund's engagement with low-income countries. As we issued a gray statement to respond to every question, I will offer a few comments for emphasis.

On PRGT reform proposals, we support all proposals, including raising normal access limit to PRGT resources, and eliminating hard caps on PRGT exceptional access for non-blenders. We also welcome and support the proposal to strengthen safeguards to PRGT resources.

Regarding the blending rules, we encourage staff to continue exploring an option that allows presumed blenders to fully access PRGT at a differential interest rate as it would have advantages to incentivize presumed blenders to graduate from PRGT while making room for PRGT subsidy resources. SDR channeling with PRGT will be another factor for further action, as Mr. Mumssen stated.

On financing strategy, there is no question that PRGT should hold sufficient resources to respond to financial needs in low-income countries, and we recognize the necessity of fundraising through bilateral grant contribution for subsidy resources. However, as a prerequisite for asking member countries for further grant contribution, the Fund's own effort is essential for donor countries to fulfill political accountability to taxpayers for the necessity of additional contribution.

We note in the paper that the possible use of internal resources such as gold pledge as one of the contingency measures against a significant contingency fundraising shortfall in Stage one and limited gold sales in Stage two if necessary. Like many other Directors, we encourage staff to seek these options from beginning at the earliest opportunities.

Last but not least, let me thank again Managing Director for her leadership and staff, especially Mr. Nolan, for every effort and great contribution to provide appropriate support for members in low-income countries.

The Chair:

Japan has been a strong supporter of PRGT, and I have no doubt that this would continue in the future, and I take good note of both Mr. Tanaka and Ms. Riach urging us to keep an open mind on how we act should there be a shortage of commitments.

Ms. Shortino:

I want to start by congratulating Domenico and the Italians for a successful set of G20 meetings. I want to thank staff for their close engagement with our office and their robust and creative set of proposals. In particular, I want to call out Mr. Nolan. He will be missed, although I think that he will not miss us quite as much as we will miss him. In our view, the set of reforms proposed today are very well-thought-out. They incorporate Board feedback, and they will enable the IMF to better meet the large financing needs of low-income countries in COVID and in the post-COVID period, and we do support all of the proposals.

I will make just a few quick points. First, I just want to reiterate what has already been said with regards to access limits that should not automatically translate into larger programs, and, indeed, they should not translate into larger programs in most countries, especially for those LICs facing rising debt vulnerabilities and in places where large increases in the super senior IMF debt could exacerbate these risks. A case-by-case approach must remain critical, and mobilization of other forms of concessional assistance will also be important.

On the issue of debt, we support the effort to strengthen debt safeguards, and I appreciate Mr. Nolan's response with regards to the exceptional access criteria, but I do want to flag that in our view, the proposal does, indeed, weaken safeguards around debt, so implementation will be key. We are still concerned that there are countries that may opt to rely on donor financing to meet the criteria in the short-term, when in actuality a debt restructuring or reprofiling may be needed in the medium- or in the long-term. I also note Mr. Nolan's responses that debt operations will probably be needed in most cases. I want to reiterate that we expect staff to remain vigilant and the Board to remain vigilant in assessing debt sustainability risks and proactively engaging with authorities and creditors to take steps to restore debt sustainability even beyond the life of the program.

Finally, we support the two-stage financing plan. It is clear that funding and the funding envelope for the first stage is ambitious and relies upon a number of assumptions with regards to PRGT demand but also around donor willingness to provide grant resources. With that, I would say annual reviews will be very helpful, but we may even need more frequent updates to the Board in this first year so that we can adjust as we need to.

I recognize what Ms. Riach and others have said on gold sales. I just want to flag this is a heavy and somewhat political lift, and we need to embark very cautiously, and I am not convinced at this stage that we will need it. So, yes, it should remain out there and on the table, but it is not something we need to take lightly.

Finally, I want to agree with Ms. Riach on SDR channeling and how critical this will be to support the PRGT as well as any other new potential trust funds, such as a resilience and sustainability trust that could very much complement the PRGT by supporting medium-term efforts on climate change or other reforms. We look forward to discussing these proposals next week.

The Chair:

Just to echo the point that it is the quality of the program that defines what the program size should be and not the fact that we may have higher access limits. This is very clearly what we, in service to the membership, in the interest of the members, we should all pursue. And I take note of the point Ms. Shortino made on exploring every possible option but move with options that require a somewhat more straightforward path. I am sure everybody reads what I am saying here, what I have in mind. I am grateful that we are not closing the door to every possible option. We mobilize to get to a point when the financial needs are met in the most appropriate and easy-for-members manner.

Mr. O'Brolchain:

I would like to join others in thanking Mr. Nolan in particular for his work on this paper and also for his considerable support in an area of interest to our constituency—that is the work on small states—which he helped to advance significantly. Moving on, I want to emphasize Canada's strong support for scaling up the financial support available to the PRGT and also that of other constituency members. This is a component of helping meet the needs of low-income countries through the pandemic and beyond working in concert with new support from MDBs. Our overall position has not really changed since this issue was last discussed.

We see a lot of merit in the proposed policy changes in the two-stage financing plan but also want to signal the importance of lending policy keeping pace with available financing as well as contingency planning in the event of subsidy shortfalls or higher-than-expected credit risk. We are very pleased to see three innovations in the latest iterations of the proposals.

First, we strongly welcome the commitment to regular reviews of financing the PRGT to ensure that resources are adequate to meet demand.

Second, and thanks to technical clarifications from staff, we welcome the introduction of the subsidy reserve account, which can serve both as subsidization and credit-protection function, which is important to those members who lend to the PRGT.

Third, we welcome the inclusion of a set of contingency measures that can be deployed in the event of unanticipated risks. Here we would underscore that the Fund's own resources should play an important part in this contingency plan. The gray statement that we issued jointly with several colleagues emphasizes the need for staff to think about the role of other stakeholders, in particular MDBs, in supporting vulnerable countries, as well as continuing to access their financing gaps.

Mr. Mouminah:

I would like to thank staff for their continuous efforts to develop a comprehensive package of policy reforms and bring it to the Board and recognize Mr. Nolan for his great contribution always. I enjoyed every bilateral discussion we had with him and his great wisdom on many different issues. We welcome the proposed reforms which will help address financing gaps and support the recovery as stronger and inclusive growth as LICs exit from the crisis. I would highlight four points.

First, the proposed reform would facilitate a provision of more concessional financing to LICs on a case-by-case basis, reflecting the country-specific needs and strength of the program. At the same time, to help close huge financing gaps, the Fund advisory role through surveillance and capacity building cannot be overemphasized in guiding and accelerating countries' domestic reform. We consider that the PRGT must continue to play its catalytic and complementary role with other multilateral and bilateral support.

Second, we continue to support the robust safeguards on debt sustainability and capacity to repay. In this regard, we agree with the point made in the joint gray statement of Mr. Bevilaqua, Mr. Buisse, Mr. Fanizza, and Ms. Riach on the importance of capacity development to help members adhere to safeguards.

Third, like many other Directors, we welcome further work to explore reforms that would introduce a dual interest rate mechanism while allowing PRGT-eligible countries to meet all the financing needs from the PRGT. In this context, Ms. Mannathoko has rightly underscored that LICs to attract a balance of payments need and deeper structural impediments should be comprehensively addressed within the PRGT.

Finally, we continue to support the two-stage funding strategy. At the same time, as Mr. Bevilaqua and Mr. Fanizza, Mr. Buisse, and Ms. Riach in their joint gray statement have underlined, we need to do further reflection of the possible use of the Fund's internal resources given the challenges in closing the subsidy gap. This is something we should continue to discuss and push it forward.

Mr. Moreno also made a similar point about the likely challenging fundraising efforts considering the budgetary constraints in most countries compounded by the donor fatigue and given the recent experiences with CCRT and Sudan. I am sure Chair has felt that in her discussion during the G-20 meeting. We may, therefore, need to be considering earlier use of internal resources.

The Chair:

It is, indeed, important for us to be watchful. Ms. Riach said something important, that if we know it is going to be difficult, we should be thinking of our options early, and I think it would be right for us to have that close monitoring. Perhaps the wisdom that the Board is offering on this issue is: let's have early engagement to see how things are going, to inform us what we do next, how we pursue that objective of having the resources necessary for our members.

Mr. Buisse:

Wishing the very best to Mr. Nolan in his new adventures. He will be missed here. Let me thank Mr. Fanizza too for the G-20 and its excellent organization. Let me say that my authorities are really expecting the same quality of organization for the Annual Meetings. Let me express once again my deep appreciation for staff's work on this workstream. The paper is very comprehensive, and I think it strikes a good compromise. We are ensuring that the Fund's LICs tools remain fit for purpose. We published an extensive gray statement with Ms. Riach, Mr. Bevilaqua, and Mr. Fanizza where we lay out our support to the proposals, and I can really completely associate myself with Ms. Riach's points today. I would like to emphasize two sets of points.

First, the proposals regarding access limits are much welcome. This will provide the necessary flexibility for the Fund to support PRGT-eligible countries with more concessional financing if needed. We know LICs financing needs in particular as expressed in the Financing for Africa Summit, those needs will be substantial in the years to come. Staff's proposal on each program's access will have to remain contingent on individual country characteristics and needs, authorities' ownership, and Fund's safeguards.

We trust staff's judgment to present us with individual programs that are truly transformational and ensure a good use of our collective resources. I trust management. I trust also and colleagues' expertise and judgment to approve or not the future proposed programs.

In addition, I agree with colleagues that the catalytic role of the Fund will be key, but let me say that even if the Fund's financing would be around 10 percent, for me this is too low with its catalytic role. With the strategy the Fund is taking up and the shareholders of the other IFIs will need to work to ensure that they are also aligning their strategy and financing to the LICs' challenges. Our work is only as good as the help we can provide to our poorest and most vulnerable members.

I would support Mr. Nolan's point on the support from MDBs and in particular from IDA. IDA has increased its commitment and accelerated its replenishment by one year. Considering the demands, it is not a question of should the Fund or the MDBs do more. Both should do more. We need both to face the challenges of the crisis scarring.

Second, we agree that reconstituting the PRGT's lending capacity after a record year and ensuring adequate long-term capacity requires ambitious financing strategy. Reading through the gray statements, let me just agree with several Directors who noted that there is a high uncertainty on actual medium-term financing needs and therefore the amounts that we will need to raise over the medium-term. That is a hurdle in itself for the fundraising. We all know that budget authorities rarely agree to spend ahead just in case it will be needed. Subject to domestic procedures matters, my authorities are ready to support the subsidy fundraising for the most immediate needs directly linked to the exceptional level of crisis lending over the past two years. Nevertheless, in line with what a very large number of colleagues have stated, we do see a need to advance the discussion on gold, in particular as I do see the bilateral fundraising objectives as ambitious in the current context, as many have said.

I take Ms. Shortino's point that this is not an easy path. I am not denying that at all, but as others said, I am not sure at all that getting the money through other means is easier. As Managing Director said we should follow very closely where we are is probably the best way to move forward.

Moreover, Mr. Tanaka phrased it very eloquently in his gray statement when he mentioned that exploring gold sales at this juncture should be seen as an issue of accountability to our taxpayers. We cannot really afford to fail. It would be a pity to have a strong demand for Fund engagement with the Fund finances being the sole limiting factor; so like many others have said, let's review very regularly the fundraising and explore every possibility. We need to remain ambitious and nimble.

The Chair:

It is not a matter of either/or. We all have to step up and do it in the most rational and respectful-to-our-membership constraints and aspirations manner.

Ms. Mannathoko:

We appreciate the extensive work that has been done by Mr. Nolan and Mr. Mumssen and their teams on concessional financing. Like Mr. Buisse, we note that the mobilization of financing and enhanced access limits are really critical to ensure that countries are able to secure the resources they need, adequate resources, both to stabilize but also to facilitate the process of resuming growth, growth that will be critical to address scarring and to avoid divergence.

We just want to really highlight the importance of careful structuring and timing of stabilization measures. As the Chair noted, the crisis is far from over; and while we had, of course, hoped and expected that by now countries would be exiting from the crisis, the reality on the ground right now is very different. Many countries are still struggling with the third wave fueled by the delta variant and others and low vaccination levels.

Like others, I just wanted to really emphasize the crucial role that flexibility plays to ensure that we do not build contractionary effects into programs, as this could really be counterproductive and can lead to stagnation and transient scarring. It will be especially important that the Fund find ways to support, both in its support and in program design, find ways to enable and support growth if we are to avoid backtracking as well.

Finally, I just want to thank PRGT contributors for their continued support under the current fundraising. Now, more than ever, the adequacy of access in finance will be critical in enabling PRGT countries to provide the stabilization and investment support needed for durable growth and an equitable exit from the crisis for all of us. Beyond that, like Ms. Riach and Mr. Mouminah and various others, we want to encourage staff to explore all options, especially in the Stage two financing. I just wanted to thank Chair on early engagement in this regard.

Beyond that, I just want to thank staff again, and we really appreciate the efforts that staff has been doing in program design. They too appreciate the flexibility and structure in programs so that we get real effects that are productive.

The Chair:

I am particularly grateful for what Ms. Mannathoko said about the recognition and gratitude to members that are in a position to help, that they are doing so and, of course, for her representing so clearly and so well, both the needs and the aspirations of her members.

Mr. Poso:

I would like to start by once again thanking Mr. Nolan and Mr. Mumssen and their colleagues for their hard work. It cannot be an easy task to meet the different demands when views are divided in the Board. We especially thank for the third supplement that provides a helpful overview of Fund financing in relation to other institutions. We have issued a comprehensive gray statement with Mr. Palotai, Mr. von Kleist, Mr. Dresse, and Mr. O'Brolchain, and have discussed this many times before, so I will not repeat all that today but raise a few specific points.

The appropriate level of super senior concessional lending from the Fund is still not clear to us, and the debt dynamics remain concerning. As said before, it is not a matter of if, but how to best support low-income countries, and what is the appropriate division of labor between institutions. Countries in my constituency have always been devoted to support low-income countries and in relation to GDP, a few of them are among the largest official development assistance providers in the world. This will also remain so.

The implications of a shift of these ODA resources from traditional partners to the Fund needs to be carefully considered, and at this stage countries in my constituency cannot commit to participate in the fundraising campaign. The current proposals fall short of credible financing assurances for a sustainable PRGT framework, and we continue to believe that the medium-term decision on access limits should have been made when preliminary commitments of funding had been secured. This would have allowed a better-informed decision and ensured evenhandedness, mitigating the risk that higher access for some now comes at the expense of lower access for some later. As a minimum, we request an update to the Board on the stages of the fundraising after the Annual Meetings to evaluate if an early review of concessional policies is needed.

The Chair:

I hope that we will work with Mr. Poso's constituency, which is one that has always been a pillar of support for low-income countries, to find a pathway to be sure that they recognize that their concerns are taken into account and that the way we move forward is reflecting that fact. Actually, so far, despite of the fact that there are differences in views, I think there is one common feature in every intervention, and it is we want to do the right thing for our members, for our poor members, but also for the rest of the membership to bring a consensus. That is where we are headed. I am confident in it.

Mr. Herrera:

We thank staff for the paper, as well as multiple engagements with the Board and Directors' offices. We agree that the COVID pandemic has created a unique set of challenges for the whole membership and especially for LICs.

The Fund has stepped up, but LICs will continue to need significant assistance to ensure a full recovery and resume their development path. We issued a supportive gray statement, so I will limit my comments to three points for emphasis.

First, we support the proposals to adjust temporarily the Fund's concessional lending toolkit until the next full review. These reforms will provide additional flexibility to respond to LICs' exceptional financing needs in the years ahead. As highlighted by Managing Director and many other Directors, individual country access must continue to be determined case-by-case considering debt sustainability, program strength, and credit risks. Raising the threshold for exceptional access calls for strengthening policy safeguards and monitoring.

Second, we support staff's proposal of a two-stage funding strategy. The PRGT appears to be underfunded to support the projected scale of LIC financing needs in the coming years, and additional resources are required to cover this extraordinary although temporary demands. We also agree that the decision about the long-term PRGT resource envelope can wait until the next full review, and as highlighted by Ms. Riach, Mr. Buisse, and many other Directors, we should remain open to explore all funding alternatives, including gold sales.

Finally, we see merit in the creation of the Deposit and Investment Account and the Subsidy and Reserve Account (SRA). An innovative and careful design of these new accounts would broaden participation in the funding of the PRGT and other concessional lending facilities by addressing domestic institutional constraints.

Mr. Peter:

I also want to thank especially staff for the impressive work put into this review, and I also join others in wishing Mr. Nolan all the best for his future endeavors as the Board colleagues also said.

We are in broad agreement with the proposed reforms. In addition to our written statement, I would just like to make four sets of brief comments. First, a few broader comments on the reform we decide today. The emphasis of this reform is on the response to the COVID-19 pandemic, including its medium-term consequences. We think that the reform proposals create the flexibility needed to address them. This flexibility, mostly operationalized by higher access limits, should not mechanically translate into larger programs, as Ms. Shortino has also highlighted. Program design should be informed by case-by-case analysis and take due considerations of debt sustainability and the capacity to repay, as also highlighted by a few others.

In this context, we strongly support the enhanced lending safeguards included in the reform proposals, and, like other Directors, we emphasize the clear role and mandate of the Fund in providing support to LICs, along with other multilateral institutions and bilateral donors, and also considering the role of private investors.

Second, concerning the changes to the exceptional access framework, we agree to most proposals. Like others, however, we would also have preferred retaining the explicit requirement that members at high risk of or in debt distress should receive debt relief or undergo a debt restructuring. Here, I want to highlight the very useful remarks made by Mr. Nolan on what essentially is at the end what we want to achieve, and this should be fulfilled by the newly formulated exceptional access criteria. In our view, this could help preserve incentives for timely and appropriately sized debt restructuring operations. I mean if we had kept the explicit requirement for debt restructuring.

Third, we consider that some reform proposals, such as the removal of hard caps or PRGT exceptional access, and the higher thresholds triggered by high access procedures may entail a weakening of Board oversight over concessional lending, as also noted by Mr. Mozhin and implied by Ms. Shortino. We wonder whether Board procedures concerning high or exceptional access could be strengthened, for instance, by making the informal Board meeting before the main Board meeting formal as well or by giving more time to the Board to consider the documents informing the meeting prior to the main Board meeting. On this, staff comments would be welcome.

Finally, we welcome that the two-stage funding strategy emphasizes the necessity of mobilizing additional subsidy resources over the medium-term. Any longer-term consideration appears premature at this stage. This strategy, coupled with a proposed monitoring process to continuously assess the soundness of the framework and the sustainability of the PRGT, appears to be the right approach.

Mr. von Kleist:

We also thank staff for issuing the additional supplements with the additional information and their oral remarks this morning, especially the additional information on prospective financing from other IFIs, and we think this is very, very helpful. We issued a detailed gray statement with Mr. Poso, Mr. Palotai, Mr. Dresse and Mr. O'Brolchain, and would add just a couple of points for emphasis.

During our previous discussions we have underscored our strong support for LICs via a strategy under which the Fund can assist by responding to the best extent possible to balance of payments-related financing needs in the context of the current unprecedented crisis and ensuing recovery effort while remaining mindful of the risks involved both for the countries seeking financial support and for the PRGT.

We have also advocated for a strategy that makes best use of the Fund's comparative advantage in comparison to other IFIs and bilateral donors, which have a small strong development finance mandate. At this stage, we remain to be convinced that the current proposals live up to these goals or whether we will face the danger of an unsustainable scaleup in super senior debt across a wide range of vulnerable LICs that are already in high-risk of debt distress.

We hope that our concerns will be proven wrong and that new super senior debt obligations will not exacerbate but catalyze support to LICs urgently needed to embark on a sustainable and inclusive recovery. We feel reassured by staff's emphasis on the importance of enhanced scrutiny and rigorous case-by-case assessment both by the staff and Board in determining appropriate access as well as careful scrutiny of public debt sustainability over the medium-term. In that regard and like other Directors like, for instance, Ms. Shortino in her gray statement, we do see a case for returning to the pre-COVID triggers for high access procedures given that a significant number of future programs are likely to involve high access with corresponding high risks. This calls for enhanced, not reduced, Board oversight.

I also echo Ms. Shortino in her gray statement and urge staff to revisit weakening safeguards for LICs in high debt distress. We are concerned that removing debt restructuring as a requirement in exceptional access cases could reduce necessary incentives for rephasing or restructuring of debt and could undermine the functioning of the G-20 Common Framework, which was a big achievement.

On blending policies, we generally concur with the proposals but find it difficult to see a simplification in the proposed set of conditions with regard to access to international financial markets. Carve-outs for certain groups of countries, for instance, smaller micro-states, may raise questions of evenhandedness or arbitrariness. At this current juncture with high uncertainty, we believe that maintaining flexibility to be able to respond to changes both in demand for concessional Fund resources, as well as in new developments on the financing sides, would be the right choice. We can therefore agree with the limits on the normal access to the PRGT be set at 145/435 of quota but request the next review of access level before the Spring Meetings 2022, when we will have a much clearer picture of the course of the pandemic, of economic developments in member countries, and availability of resources.

Like others, we consider conducting frequent reviews of both concessional financing and policies vital and would expect a first stocktaking on the issues after this year's Annual Meetings. We are open to support a temporary suspension of reimbursement of the GRA for PRGT administrative costs but do not support the current proposal to extend the suspension to FY2026. Instead, the case for expanding the suspension should be reassessed on a regular annual basis taking into account the progress made in building up precautionary balances for the GRA. We agree with Ms. Shortino that we cannot support proposals on gold sales.

The Chair:

I recognize that we have to be all watchful. I am particularly keen to make sure that we do always prioritize a role for the Fund that leads to sound policy performance among our members. Let's remember what happened when we got into this crisis. Countries with strong fundamentals managed a very dramatic collapse of economic activity better, and that is what we want to see for the future: that we help countries to have strong economic fundamentals.

Mr. Bevilaqua:

We commend staff for developing a comprehensive set of proposals which builds on previous discussions to present a meaningful and viable consensual approach to enhance Fund's financial support to LICs. We also want to thank staff for the helpful Q&A, answers to Directors' questions, Mr. Nolan and Mr. Mumssen for their introductory remarks, and Mr. Nolan for all his contributions to this and other important workstreams. We cosigned a gray statement with Mr. Buisse, Mr. Fanizza, and Ms. Riach in which we strongly support the enhanced framework for PRGT lending. This is even more important in the aftermath of the pandemic, which has raised the challenges faced by low-income countries. In any case, I would like to make a few comments for emphasis.

First, we wish to underscore the added robustness to the framework with the asymmetric income threshold criterion for entering or exiting blend status, and with the removal of the market access and prospective market access criteria in determining blend status.

Second, we reiterate our call for staff to keep working on the possibility of a dual interest rate scheme for the PRGT, considering the challenges faced by PRGT-eligible presumed blenders.

Third, we also reiterate our preference for an early implementation of the funding recommendations given the delays that may be registered, particularly in mobilizing the Fund's internal resources. That said, as noted in our joint gray statement, we are willing to go with the consensus on the two-step approach. Nonetheless, we expect a prompt decision of early consideration of the use of internal resources, including gold sales, if circumstances warrant it.

Fourth, we are going along with the suspension of the reimbursement of administrative expenditures to the GRA account for five years while reiterating our call for a much longer suspension of at least ten years.

Fifth, the added flexibility in contribution modalities is to be commended. Given that PRGT subsidy resources are estimated to be sufficient to cover immediate years, we concur with staff's proposal that the Fund can accommodate options that involve a gradual accumulation of subsidy contributions. However, we expect that the agreed PRGT funding package is backed up by sufficient upfront pledges.

Finally, we take note of the decision to leave for a separate workstream funding policy issues related specifically to the FCS toolkit, to targeted support for vaccination programs and to potential use of new trusts to support resilience building and sustainability objectives in the context of the voluntary SDR channeling. We look forward to the forthcoming discussion and swift progress on all these fronts.

Mr. Sylla:

As Ms. Mannathoko, I would like to express our gratitude to countries that are in difficult situations but still continue to support our countries during this difficult time. We have issued a statement in which we expressed our support to the proposal to enhance the PRGT lending framework and adopt a new funding strategy for the trust fund.

Given the projected substantial financing needs and debt vulnerabilities in many LICs, the availability of concessional resources is more important than ever before to contain debt vulnerabilities. Therefore, considering the scarcity of such resources, we welcome the staff proposal to secure more of those resources and make them more accessible in the PRGT framework. We support extension of the temporary increase in annual access limits to 245 percent until December 2021. However, we should remain open to further extend this limit in 2022 should the global conditions not improve.

We support the simplification of blending rules to reinforce the blend status. However, there is a risk that a country which does not meet the income criterion but has access to international markets will tap to non-concessional resources. We encourage staff to closely monitor those potential developments which go against the objective of the current proposal to contain debt vulnerabilities.

The proposed enhancement of the PRGT lending capacity will be meaningless if effective access is not determined by country-specific circumstances and financing needs. Therefore, as mentioned by Ms. Riach, flexibility in program design during these exceptional and uncertain times is critical to support country efforts. Going forward, we would encourage staff to adapt lending policies considering the impact of the pandemic on debt sustainability assessment.

To conclude, we really appreciate Chair’s leadership in bringing these innovations to the Fund instrument to ensure that the Fund meets adequately its member needs in this exceptional environment.

Mr. Huh:

We broadly support staff's proposal on the PRGT lending policies and the two-stage funding strategy. As we issued a comprehensive gray statement with Ms. Lim, I will limit my comments on additional points raised in other gray statements.

First, while we are supportive of increase of the PRGT normal access limits and the elimination of the hard caps, the next comprehensive review scheduled for 2024 and 2025 might come too late given the high uncertainty over financing demand, resource mobilization, and the debt sustainability of eligible countries. We, therefore, urge staff to remain flexible on the timing of the next comprehensive review and to use each annual review to look for red flags. In this vein, we see merit in the sunset clause, as proposed by the joint gray of Mr. Palotai and other Directors.

Second, we share the staff's cautious assessment of the reform option of the PRGT, as it would require substantial additional resources and weaken the reserve coverage ratio for PRGT creditors. As other Directors, we also see merit in exploring dual interest rate mechanism in the PRGT in the future when financing demands stabilize and the sufficient loan and subsidy resources are secured.

Finally, like other Directors, we encourage staff to continue to explore all financing options, including the possible use of Fund internal resources. In particular, we remain open to use the gold sales for the pledge and would prefer early consideration and analysis of the effect on the Fund's balance and asset prices.

The Chair:

It was a great pleasure to meet many of the G-20 Finance Ministers and Central Bank Governors in person, and I particularly enjoyed having a side meeting with Deputy Prime Minister Nam-ki. We discussed not only Korea's strong performance in this very difficult time, but also on the need to help the less fortunate countries. And I want to express my gratitude for this very, very constructive, very good meeting to Mr. Huh.

Ms. Lim:

We commend the hard work put in by the team on this workstream through many rounds of consultation and revisions. We have issued a gray statement with Mr. Huh in support of the proposed reform package, so I will only offer two comments for emphasis.

First, there is a delicate balance to be made between providing the needed support to LICs through the challenges of the pandemic and at the same time ensuring the long-term debt sustainability. Given the substantial financing needs and the scale of damages caused by the pandemic, LICs will experience high levels of indebtedness in the periods ahead, and we agree that concerns over debt sustainability should be taken into consideration. However, it should be made clear that fiscal consolidation and discipline can only be effectively implemented when a strong and sustainable recovery takes a firm footing. The pandemic situation proves to be highly evolving and uncertain, and the vulnerable groups and hard-hit sections of the economy continue to need public policy appropriate to their level of institutional capacity and country-specific circumstances. As such, adequate financing should be accompanied by pragmatic program design, strong support in terms of technical assistance and capacity development, and close coordination with other development partners and bilateral donors. We also see merit in advancing Fund's work in debt relief and restructuring efforts and encourage the Fund to coordinate closely with relevant parties to support such initiatives, especially in the hard hit LICs.

Second, as we support the two-stage funding strategy, we also put a premium on long-term self-sustainability of the PRGT. As staff noted in the paper, the resource mobilization to boost PRGT loan and subsidy accounts will require substantial effort, and we appreciate the additional flexibility built in the proposals in terms of the timing and methods of contribution. Nevertheless, it should be noted that a significant portion of the membership, including many EMDCs, are still coping with the pandemic with recovery fragile and uncertain, and these may constrain their contributions. Thus, we would like to echo the call by many Directors in their gray statements and interventions for staff's further analysis on the possible use of IMF internal resources to inform and facilitate our internal discussion on this issue. This should begin sooner rather than later and could include a suspension of GRA reinvestment beyond 2026 and the considerations on gold sales or gold pledge. We look forward to a more comprehensive annual review and more regular updates on these latest developments.

The Chair:

Both points Ms. Lim concentrated on, are at the heart of the work we have to do, and I am grateful for what seems to be emerging as a broad consensus on being watchful of how far we go, how fast we go, and thinking of what the alternatives are.

Mr. Dresse:

We thank staff for the in-depth analysis and guidance regarding the role of Fund concessional finance for LICs, and I want to pay tribute as well to the continuous engagement of Mr. Nolan during this process and previously and also to thank Mr. Mumssen.

We recognize that the needs of LICs have increased substantially as a consequence of the COVID crisis, and we strongly support the effort to ensure an even, full recovery for vulnerable countries. We largely support staff proposal but want to express some concern as well.

As indicated in the recent Board discussion, we read these proposals with the objective of preserving the unique role of the IMF as a lender of last resort, as well as the catalytic nature of its activities at all times. We cosigned an extensive joint gray statement and would like to emphasize the following points.

First, like Ms. Lim, we would like to explain that the tradeoff between access to financing and ensuring sustainable debt levels should remain top of mind in the coming years while access levels remain elevated. Also, we remain concerned about rising debt levels. We can support a temporary increase in access limits as proposed by the staff, whether in conjunction with an internal assessment before the 2022 Spring Meetings, as expressed by Mr. von Kleist, and the sunset clause fixed at the time of the next full review scheduled in 2024-2025.

Financial support provided by the Fund to LICs should go hand in hand with effective program design, taking into account country specificities and absorption capacities, as well as the rigorous assessment of debt sustainability and the capacity to repay the Fund.

Regarding blending rules, another dilemma applies where under certain circumstances countries with debt vulnerabilities lose market access and increase their concessional lending with the Fund. This should not compromise concessional lending to the poorest countries, nor should it elevate the credit risk to the Fund or postpone debt restructuring. We are of the view that the 1:2 ratio blend remains appropriate; however, given the scarcity of PRGT resources, we have questions with all PRGT financing for presumed blenders.

We agree with the two-stage Fund strategy and welcome the exception for bilateral CD contribution. In principle, we support the creation of the two new PRGT accounts provided they truly add value to the already existing accounts. In this respect, we thank Mr. Mumssen for his comments in the introduction to this meeting.

Finally, in the context of contingency measures, if fundraising falls short of expectation, we still express a strong reservation about the use of gold sales. More generally, we remain highly cautious of using internal Fund's resources to finance the PRGT, as it will erode the Fund's financial solidity and integrity.

Mr. El Qorchi [4]:

While staff have clearly showed the difficulty with using gold sales to replenish PRGT resources, we think that option should not be entirely off the table. The Fund has relied extensively on the generous contributions of member creditors, which is well appreciated. That said, gold sales offer the best option, albeit difficult, this may entail boosting permanent PRGT resources. This, in our view, ensures burden sharing by all members.

Mr. Just:

We have issued a joint statement to Mr. Poso, Mr. von Kleist, Mr. Dresse, and Mr. O'Brolchain and would like to add a couple of points.

First, we very much value the Fund's catalytic role to finance low-income countries given the scarcity of global development and financial resources. We also very much appreciate staff's sometimes creative proposals on the financing strategy but continue to be hesitant to fully endorse them. Like Mr. Poso, we call for taking stock of fundraising efforts and the annual review after the Annual Meetings so we can have an informed discussion on the state of fundraising and the resilience, soundness, and sustainability of the financing strategy. We are also not convinced of the value of the gold pledge or gold sales option.

[4] These comments were made in the videoconference chat window.

Second, we welcome the Chair's assurance that more resources will not translate into larger programs. We underscore the needs for determining access based on a rigorous case-by-case assessment conducted in a transparent, evenhanded, and consistent manner, as well as of careful scrutiny of debt sustainability over the medium-term in the context of fully strengthened safeguards. Like Ms. Shortino and Mr. von Kleist, we see the proposal on stock flow triggers as going counter to this objective, as it could reduce the Board's oversight role. We further stress the importance of reducing debt vulnerabilities as a core element of program objectives for members at high-risk of debt distress and fully share Mr. Peter's earlier remarks in this regard.

Mr. Moreno:

We have issued a detailed gray statement, so we support all the reforms, so I will focus on three main points.

First, on the general strategy, I think it is important to send a clear message that the IMF is there to support the PRGT countries in their recovery from the pandemic, but I think it is not only that. We are at an inflection point where we are redefining macrocriticality. We are now saying that countries need to have a resilient and sustainable recovery, so really our comparative advantage and our involvement in countries is shifting, and we need to be up to date in that change. Now, achieving this inclusive growth, the financing needs have increased because of the pandemic, so the Fund needs to be there.

We do not share either the concerns of some of our colleagues in terms of the crowding out. I think Mr. Nolan was clear at the beginning that it was only natural that the IMF has increased its role because we were very supportive for our member countries with emergency financing. Financing needs are sizable. They have increased with the pandemic, and we all need to step up. The catalytic role of the Fund is still there, and our remote involvement remains key for attracting other multilateral, domestic, and international resources.

Second, two specific issues on safeguards, just so stress the importance of providing countries with capacity development in order to be able to comply with them; and also, third, on exploring the alternative approach to the blending policy and calibrate its implications of higher credit outstanding.

And third, on the financing strategy, we welcome the flexible approach by staff to facilitate contributions through different modalities and timing for the contributions. However, we think that in many countries, these new possibilities will likely pose conflict with domestic, legal, and institutional frameworks. It is not clear that the contributions can preserve their reserve nature, which will lead to budgetary grants as the only legal option for many countries in the context of limited budget availability and donor fatigue.

We are among those who strongly call for mobilizing internal resources, including gold sales; so here, like Ms. Riach, we will argue that the fact that it takes time is an argument that should not prevent us from looking at this. We need to, of course, proceed with caution, but this is a crisis like no other, and we were saying that it requires exceptional actions like no other. I think Mr. Buisse framed it well when he said that the resources of the Fund should not be the only restriction.

Further, I think that there is a political momentum in the international community to try this path, and we can risk losing that momentum if we do not engage it. I would just like to quote here, Mr. Jean Monnet, who was one of the founders of the European Union, he said something along these lines: People only accept change when they are faced with necessity and only recognize necessity when crisis is upon them. We are in the time of a huge crisis, and I think all measures should be considered.

The Chair:

Mr. Moreno has been a very strong voice for this proposal and for the Fund to lean forward.

Mr. Alhosani:

We issued a comprehensive gray statement; I will be very brief and reemphasize a very few points.

On enhancing the safeguards, we supported the staff proposals to maintain the higher levels of the flow on stock triggers until the next full review of the LIC facilities. Like other chairs, we find that there is a greater role for the Fund to provide timely and necessary TA and other CD activities to ensure that capacity constraints do not constrain countries' abilities to abide by the safeguards, thereby, delaying their access to much-needed Fund financial support.

My second point is on the dual interest rate mechanism. We stated our interest that staff further explore all the possible modalities for a dual interest rate structure to provide all PRGT loans to presumed blenders at suitably adjusted rates. We would encourage staff to do so as soon as possible to ensure that LICs' protracted balance of payments needs are addressed in a timely manner.

Finally, on the proposed funding strategy, we support the proposed two-stage funding, and like Mr. Bevilaqua, we look forward to discussing the SDR channeling proposals at the upcoming Board discussion.

Mr. Jin:

Overall, we highly appreciate the management and staff's effort to increase the Fund's support to low-income countries and broadly support a constructive discussion of this report and are supportive or open to the proposals raised in the report. We would like to offer the following comments based on our gray statement.

First, the Fund's lending to LICs should continue to play a catalytic role in mobilizing financing to its members. We see merit in scaling up concessional financing to low-income countries during the crisis period and even beyond, while in the longer term, the Fund should also pay attention on issues such as receding countries' capacity building, crowding out effect of the Fund lending, or increasing potential risks to the Fund's balance sheet.

Second, we found the two-stage approach is very pragmatic. In fact, the first-stage target is ambitious. We share many Directors' feelings that securing subsidy resources could be challenging. It is helpful that staff has suggested some innovative financing arrangements. Given the rapid rise in inflation in the major developed countries, the risk of much higher interest rate on sustainability of the Subsidy Account cannot be neglected. The Fund's own effort in mobilizing internal resources, including gold pledge or gold sale, should be part of the whole effort.

The Chair:

We have to recognize that there is a degree of uncertainty, and we have to be very agile in how we structure support, how we raise the necessary resources, what issues we pay closest attention in that context.

Mr. Fanizza:

We have issued a gray statement together with Mr. Bevilaqua, Mr. Buisse, and Ms. Riach. I want to share two things.

One is on funding: I am sure that the SDR allocation generated a substantial amount of resources to be recycled. As we know, we will need to generate subsidies. It is not going to be easy. That has already been said. Therefore, I am happy that it looks like many Directors share the idea, including Ms. Shortino, that we should actually look at all possible options, and that is the way we should work. Let's proceed in this manner. It will be very important that we should explore internal resources, including the possibility of gold sales. I welcome the work staff has done particularly to the proposal and facilitated contributions in different form and spread out over time—it is very important for us.

The last thing that I wanted to say is that this idea of why is all of this important. We want to make sure that lower-income countries do not end up paying high interest rate on the market, and actually they continue to follow good policies, and in this sense, Fund programs are essential, and I see that as the essential mechanism for the catalytic role of the Fund. The catalytic role is not getting an extra grant from Italy. It is attracting financial flows and grants because the quality of policy has improved in the country, and we can do that only with upper credit tranche (UCT) conditionality, with strong programs; and also these strong programs are actually the only tool that we really have to limit risk for the Fund. These programs are what will make actually possible future repayment from the members, and this is what we want.

That is the main message. And we are going to make it.

Mr. Natarajan:

We deeply appreciate Chair's commitment for this proposal in reaching this advanced stage. We have expressed our views in the gray statement and in the previous discussions. Hence, I will keep the intervention brief and emphasize the following points.

Like other Directors, we agree that the enhancement of annual and cumulative access limits for concessional financing on the PRGT underlining with the levels as same as GRA is a major step towards helping LICs. It will improve the macroeconomic condition and catalyze a robust economic recovery. As these countries move towards availing UCT-quality lending programs, their enhanced access, coupled with the proposed safeguards, will be beneficial to the needy countries. The demand for concessional financing is expected to increase substantially. To boost the resources, the two-stage funding strategy would require huge follow-up efforts. While the alternative suggested can help increasing subsidy resources, providing an effective mechanism for channelizing SDRs would play a critical role.

We agree that the proposed mechanism for income access criteria addresses the possibility of premature reversal of blend status. We think further analysis is required regarding pricing changes in the blending groups. This requires detailed analysis of cost and benefits and additional resources required.

Mr. Mozhin:

We have issued our written statement where we supported all the proposals made in these final documents. Of course, this document was the outcome of several previous considerations in the Board. We supported all the proposals except one. We still have doubts regarding the proposal to weaken the procedure for triggering the preliminary Board considerations in some of the high access or debt distress cases. We are on the side of those who feel that the Board oversight is necessary in all such cases.

Now, listening to presentations by other Board members, and this is the advantage of speaking in the end of the list, we would be prepared to support the consideration of possible gold sales to address the financing needs of the PRGT. We certainly welcome the creativeness of the Fund's staff, and we heard Mr. Mumssen about the four possible options about how this financing, especially for the subsidy account, could be addressed. But the complexity of all the four of these options is significant, so I would prepare to support the consideration of gold sales and expect staff to provide a more specific paper on what would be the size of the possible gold sales, what are the current circumstances, and how much the Fund has in the Fund gold.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Nolan):

I would like to pick up on a few points that Directors made.

Many Directors underscored the importance of higher access limits give more flexibility but should not automatically drive higher access levels. I just wanted to reassure them and urge them to look at the first note in Supplement 3 on Monday, which looks at exactly how the borrowing space created by the temporary access limits, increases last July and then again in March, how they have actually been used. What was striking is the extent to which they have been used relatively infrequently and in modest amounts in terms of access.

The annual access increase for the PRGT was 50 percent. Many Directors felt it was too low. With the exception of Sudan, a weird and special HIPC case, the access has never been more than 30 percent. Indeed, the use of the temporary limits to date has been very much consistent with the message of more flexibility but not sort of a dramatic increase in access levels arising from it.

The next point I wanted to pick up on was one of Ms. Shortino and Mr. Peter and others regarding the issue of modifying the exceptional access period for the PRGT. I will briefly repeat my point that the objective of the criterion in the policy safeguards is reaching low or moderate risk of debt distress. How you get there is a little bit more of an open choice, although it will usually involve debt restructuring. Directors have fairly underscored that that will require hard-headed programs, that it will require careful Debt Sustainability Analysis (DSA), and that it will require careful oversight by the Board and management and staff, and I think that is exactly what we expect to happen. We see those as actually the safeguards built in the Fund's approach and built in our stronger debt sustainability frameworks, which also, for example, flag excessive optimism; that we at the Board level will see whether or not any programs are unwisely seeking to lend into unsustainable debt situations and hopefully be reassured that we will not be doing so.

My next point was Mr. Peter and others commented on the high access procedures. We attach a lot of importance to the high access procedures, which is to emphasize they are completely distinct from the exceptional access criteria and are unique to the PRGT. Indeed, there is a full page in the paper outlining exactly what those procedures are in some detail. I wanted to note that the most important piece in that box is probably the statements as the informal high access Board meeting should take place as soon as management concurs that a new request involving high access could be appropriate. So, indeed, the mandate to staff is to engage with the Board early, allowing you the opportunity to hear an initial assessment of the situation why there might be likely access and give Board members full opportunity to offer responses and views at that point in time. The paper attaches a lot of emphasis to the role of the high access procedures here.

As regards continuing the high temporary higher thresholds, I do not see that as particularly significant. The flow trigger assessment, which is now—it used to be 180 is now 240—that covers a 36-month period. The reason it was increased was because anybody who borrowed 100 percent or close to 100 percent under emergency access, that amount was going to be involved in their access levels for a full three years, so the logic was really, as many of you had called for, was to de facto carve that out of the triggers.

The second thought there is that the stock trigger is 300 percent of quota, which as you will recall, is the current normal annual access limit. Therefore, any case that involves cumulative access in excess of what is today the normal annual access limit will require the high access procedures and the additional Board scrutiny; I think that that angle is also reasonably well covered.

I would like to end by thanking EDs for their kind words. The key point is nothing gets accomplished at the Fund by individuals. It gets accomplished by teams. Over the last six months, this has been a big team. It has involved people from the Legal Department, Mr. Mumssen and my colleagues in FIN, and SPR staff. It has involved a lot of staff assistants working until 2:00 in the morning quite regularly to get papers out on time. It is very much a team effort. The one thing I will take responsibility for is my own sense of humor. That is a personalized feature, but everything else is team-delivered.

The Deputy Director of the Finance Department (Mr. Mumssen):

There were no specific additional questions on funding. We heard all the messages. We will continue to engage with Directors in this very complicated effort to come together and continue mobilizing the resources, and let me also take this opportunity to thank Mr. Nolan. It was such a pleasure to have worked with him. He brings so much institutional knowledge and good humor. It has been a real pleasure.

I want to start from the point Mr. Nolan made, how many people have contributed to where we are today. It is a team effort, and I would add to the team the Executive Directors, their offices, and their authorities, because we all have worked together to come to a proposal that can be supported, can contribute to the unity of the Fund, and can help our weakest members to cope with the impact of this crisis, but also significant underlying problems that they have been wrestling with before this crisis.

There has been a great deal of wisdom in what has been presented. On many issues we came to a very clear, full consensus. On some, we have to continue to work. The best way to do it is, as we have gotten to this point, to do it together.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

GRAY/21/1955

July 9, 2021

Statement by Mr. Mohieldin, Mr. Alhosani, Ms. Choueiri, and Ms. Al-Riffai on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for a series of very well written documents and for their hard work culminating in these proposals. We also thank them for their informative Q&A session. It is worthy to note that the suggested reforms to the access limits and blending policies proposed in this paper are estimated to have a modest impact on PRGT finances. Staff also estimate that even under the existing policies, PRGT crisis lending would still reach unprecedented high levels, with credit peaking at around three times the pre-pandemic level. We wish to highlight the following.

Proposed Amendments to the PRGT

On access limits: We support raising the access limits on PRGT resources, especially in light of the uncertainty around the depth of the pandemic and long path to economic recovery. PRGT funding would provide LICs with larger access to low-cost-financing from the Fund and would limit the number of non "blend" LICs that are required to access the GRA. With respect to the proposed increase in the normal access limits, we support the suggested increase in the annual and cumulative access limits to 145/435 percent of quota, respectively. We also concur with staff on the application of these new limits to all the new financing requests as well as to the existing arrangements (except those grandfathered under the Policy Safeguards for High Combined Credit Exposure (PS-HCC) policy). Furthermore, we support extending the temporarily increased PRGT annual access limit to end-December 2021 and agree that it remain applicable to any 12-month period that falls within, or includes, the period from March 22 to December 31, 2021. We support amending the exceptional access criteria which removes hard caps on the access limits for both the annual and the cumulative access criteria. We agree to reassess the criteria at each review, except criterion 3 which determines the blending eligibility based on income thresholds, this would be assessed at the time of the approval of the exceptional access arrangement.

On simplifying the norms: Whilst in pre-pandemic times, the currently differentiated norms were established to encourage the use of the PRGT's scarce resource by countries who used them less, this rationale no longer applies to our current reality. The pandemic has given rise to an elevated financing need for all LICs. We thereby see merit to staff's proposal to simplify the current access norms with one unified requirement set at 145 percent of quota for any three-year Extended Credit Facility (ECF) arrangement.

On safeguards: The Fund has a multilayered and robust framework to mitigate and manage credit risk across its lending operations. We support the proposal to maintain the higher levels of the flow and stock triggers that were introduced in March 2021 until the next review of the LIC facilities. We also support modifying the PRGT Exceptional Access criteria to align them with the PS-HCC Exposure.

Proposed Changes to Blended Access to Financing

On the blending eligibility criteria: Staff propose to reform the blending framework to make it more robust and less complex. For the income criteria, staff are proposing to determine a country's "blend" status based on whether, or not, its GNI per capita exceeds 5 percent above the IDA operational cutoff for a period of two consecutive years and fall out of its "blend" status if its income per capita falls beneath 95 percent of the IDA operational cutoff. *2020 was an exceptional year, a structural break in most countries' income trajectories, to what extent has this affected countries' blend status under the newly proposed 5 percent cut off point?* We support staff's proposed simplification of the role of market access and debt vulnerabilities in the determination of a country's "blend" status, and we welcome staff's consideration of the difficulties that small and micro states currently face in trying to access international markets.

On providing presumed blenders with "all-PRGT" loans: We remain interested in further exploring all possible modalities that would introduce a dual interest rate structure to the PRGT framework so as to provide "all-PRGT" loans to presumed blenders at suitably adjusted rates. This is important since the policy requirements, the repayment periods, and financing costs under the PRGT are more suited for the characteristics and needs of "blending" LICS who typically face protracted BOP needs not well addressed under a mix of GRA and PRGT funds. Staff point out that higher lending volumes from the PRGT would imply a substantial increase in credit outstanding and a decline in the PRGT's reserve coverage ratio, here we would look forward to suggestions on how to address that concern.

PRGT Interest Rate Review

We support staff's proposal to maintain zero interest rates on PRGT lending under the ECF, the Standby Credit Facility (SCF), and the Rapid Credit Facility (RCF) until July 2023. *In the event interest rates rise globally before the scheduled review in July 2023, how is that expected to affect the zero-interest rate assumption?*

Financing Needs and a Funding Strategy for the PRGT

It is reasonable to assume that demand for PRGT resources will remain elevated over the coming years as LICs struggle to contain the impacts of the pandemic and underpin a sustainable recovery. Staff project that total PRGT lending may reach around SDR 21 billion during the pandemic and immediately afterwards. Yet, uncertainties around the pandemic, the pace of the recovery, and the demand for IMF concessional financing is difficult to precisely predict at this time.

On the proposed funding strategy: We continue to support the proposed two stage funding approach to the PRGT. We agree with staff's proposed suggestions for the first funding stage which would rely on a medium-term mobilization effort aimed at closing the resource gaps created by the pandemic-related lending, all whilst preserving the PRGT's capacity to lend post-crisis.
We welcome the second funding strategy that entails a longer-term solution to the PRGT's self-sustainability status. We look forward to discussing these outcomes at the next *Review of Concessional Financing and Policies* scheduled for 2024/25. We would support a partial "rechanneling" of SDR allocations to facilitate the mobilization of additional PRGT loan resources, leaving room for a voluntary rechanneling of the SDRs towards the "Resilience and Sustainability Fund" which aims to support middle-income countries. We see merit in the suspension of PRGT reimbursement to the GRA through FY26 which would keep the additional resources in the Reserve Account and add to the PRGT's endowment to cover subsidization as well as improve the reserve coverage ratio.

We support the creation of the Subsidy Reserve Account (SRA) and a Deposit and Investment Account (DIA) within the PRGT. Both accounts aim to facilitate bilateral subsidy contributions and reinforce the PRGT's reserve coverage.

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GRAY/21/1959

July 12, 2021

Statement by Mr. El Qorchi and Mr. Osei Yeboah on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the detailed report on the Fund's concessional financing to LICs with particular emphasis on responding to the pandemic. We think the review is timely and will well-position the Fund to offer effective assistance to poorer countries in addressing protracted BoP and financing gaps, which have worsened due to the pandemic. We broadly agree with the thrust of staff appraisal. On Fund immediate response, we believe the Fund reacted promptly by providing exceptional financing in support of LICs' emergency actions at the onset of the pandemic. This response provided critical resources at a time when most LICs were constrained by limited buffer space.

PRGT Lending Framework

While the Fund's PRGT lending framework has served its most vulnerable members well, the pandemic and its aftermath are exposing limitation. With a still uncertain path of the pandemic, the Fund needs to boost its lending capacity to meet anticipated high demand for PRGT resources from LICs with strong economic programs in a context where most LICs have significant outstanding balances to the Fund.

1. We broadly agree with the outlined modifications to the LIC's lending framework, which proposes increasing normal access limits on concessional resources to 145/435 percent of quota. The proposal provides scope for the Fund to offer multiyear UCT-quality arrangements to LICs beyond the immediate pandemic shock window to enable these countries to navigate the recovery and mitigate long-standing BoP problems.

2. We agree with the approach to gradually weaning off higher income LICs from PRGT resources to GRA in exceptional access (EA) situations. However, amid the

prevailing pandemic environment where all LICs have been hit hard, we are concerned about the financing cost implications for EA blenders. *Can staff comment on the possibility of moderating the financing cost to presumed LIC blenders?*

3. The Fund's PRGT procedural safeguards are a core feature of all its lending programs to LICs, designed to mitigate and manage credit risk and preserve debt sustainability. We support maintaining the thresholds for triggering the high access procedure at the current flow and stock triggers of 240 and 300, respectively, until the next full review of LIC facilities.

4. We see the relevance in aligning the PRGT EA criteria with the criteria under the Policy Safeguards on High Combined Credit (PS-HCC). We think the alignment ensures uniformity of treatment for LIC blenders and non-blenders in EA cases. Particularly, for LICs at high risk/in debt distress, it shifts the emphasis on program achieving moderate risk of debt distress rather than requiring debt restructuring operation.

5. While the access norm is neither a floor nor a ceiling, the graduated threshold linked to outstanding Fund credit sends a conflicting signal. In this regard, we think the proposed 145 percent starting point stipulation simplifies the use of access norms and offer flexibility for a case-by-case determination of access criteria.

Reforms of the Bending Policy

We support the rule modifications that places a requirement for LICs' GNI per capita to exceed the IDA operational cutoff by 5 percent for two consecutive years to be an eligible blender. The change puts more emphasis on country's GNI, which in our view is a more predictable indicator than market access.

We think the rule changes on market access and debt vulnerability in determining blend status, require further clarification. In our view, it is difficult to anticipate market access for a country in debt distress or at high risk of debt distress, irrespective of past successes. *Staff may wish to comment.*

Reforms of LICs Access Norms

We think the zero-interest rates on PRGT loans should be maintained, consistent with the established rules. That said, the Fund should continue to explore ways of simplifying its lending instruments to LICs that ensures all their borrowings are from PRGT resources. *Can staff comment whether ensuring all LICs' funding in PRGT will constrain the level of access for higher-income LICs?*

Fundraising and Subsidy Accounts

We support the two-stage fundraising plan and the creation of the two internal accounts (SRA and DIA) to manage bilateral subsidy contributions. That said, we think future Fund strategies should seek to boost permanent concessional resources consistent with self-sustaining PRGT that shifts dependence away from borrowed resources.

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GRAY/21/1960

July 12, 2021

Statement by Ms. Mannathoko, Mr. Nakunyada, and Ms. Maidi on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary) Executive Board Meeting 21/71 July 14, 2021

1. We thank staff for the detailed report. The proposed package of policy reforms is an important component of current efforts to avert a divergent recovery for LICs. Enhanced access to and adequate augmentation of the Fund's concessional resources is critical to support efforts by LICs to place their economies back on a path of income convergence and back on track towards the 2030 SDGs. We appreciate staff's continued efforts to accommodate Directors' views on how best to adapt Fund facilities to the rapidly evolving needs of LICs. We are broadly supportive of staff proposals, but with a couple of caveats relating to points we raised at the Board informal in June, as we remain concerned that the Fund may be moving too fast on the path back to normalization of stringent program requirements when many of our LICs are still trapped in the midst of crisis.

Reforms to enhance PRGT lending framework

2. **Access limits:** We continue to seek the extension of the temporary increase in the normal access limit to 245 percent of quota beyond 2021 as the crisis is far from over in our region. As countries continue to grapple with the third wave and delays in vaccine supply, it is clear that they will not have herd immunity or full operations by year end. As we indicated before, we are of the view that an approach that matches expiry of the temporary 245 percent of quota access limit with the re-establishment of a convergence path, would be more effective in ensuring timely adjustment. We agree that after the temporary increase, PRGT access limits should be set on par with GRA thresholds for evenhandedness across Fund facilities. We therefore support pegging the new normal access limits for the PRGT at 145/435 percent of quota once the temporary increase expires. Given the extent of scarring in many of our LICs, it is unlikely that countries will have fully recovered four years from now, therefore we stress the need to maintain or increase these new access limits beyond 2025.

3. While increased access limits are enabling some LICs to shift from emergency financing to UCT quality programs that support fiscal and structural reforms, this shift is more difficult for others who are encumbered by the third wave of the pandemic alongside marginal vaccinations (in many cases only 2 percent or less of the population is fully vaccinated). Thus, the situation remains dire, and fiscal consolidation measures that are invariably built into all UCT programs could resume too early under the current normalization drive, and risk delaying recovery in some LICs and deepening scarring. Analysis for our region suggests that what is often intended as pro-growth fiscal consolidation is sometimes redistributive rather than growth oriented, limiting allocations to boost growth and raise the average public investment rate. Thus, while fiscal consolidation is necessary, we hope LICs can also be given adequate respite where necessary, to recover from the crisis, as has been the policy for other members.

4. We agree with the need to retain the higher flow and stock thresholds of 240 and 300 percent of quota respectively under the High Access Procedures until the next full review of the LIC facilities as the old thresholds have been overtaken by financing needs in the wake of the COVID crisis. We also endorse the removal of hard caps on PRGT exceptional access (EA) as this will ensure that countries with strong programs can access required levels of support to stabilize in a timely manner and secure financing support for their reform efforts. We also support the adoption of a simplified, unified 145 percent of quota access norm for three-year ECF arrangements, given that the rationale for differentiated norms no longer holds.

5. **Enhanced safeguards:** We support the alignment of the PRGT EA criteria with those under the Policy Safeguards on High Combined Credit, as this does not have material implications for risk, and at the same time the fundamental requirement that the program achieve moderate risk of debt distress within the program period, remains. We once again underscore the importance of flexibility and tailoring to country-specific circumstances in programs, including in determining the best path to achieving debt sustainability.

6. **Simplifying blending rules**: We support a simplified blending framework to avoid excessive switching by PRGT members in the wake of large shocks. Importantly, the modification of the income threshold will help to limit the risk of premature graduation and early-reversal of blend status, while allowing consistent treatment of countries. We also support the proposed commencement period of 2019-2020 to determine blend status eligibility. We support the removal of market access in determining the blend status as articulated in paragraph 42. Further, we support the simplification of rules for determining the mix of PRGT and GRA resources for blenders. *Could staff clarify the criterion in paragraph 41 regarding when debt vulnerabilities are deemed to limit market access, which reads: "Countries are deemed to face such limits on their access to international financial markets if they are i) in debt distress or ii) at high risk of debt distress and a) <u>have had limited past access to international financial markets</u> or b) are small/micro-states." Contrary to the principle asserted in paragraph 42 that countries in debt distress or at high risk will not be required to blend, this criterion seems to imply that distressed countries would still be expected to blend if they previously had sustained* *market access in the past, while small states in the same situation would not. Could staff clarify this and the reasoning for requiring LICs to blend, while exempting small states?*

7. **Dual interest rate mechanism:** We support continued work to explore reforms that would introduce a dual interest rate mechanism to support the proposed blending framework, as it provides some benefit for blenders when compared to accessing GRA resources, while still allowing PRGT-eligible countries to meet all their financing needs from the PRGT and ensuring the sustainability of PRGT subsidy resources. We further urge staff to explore ways to operationalize the dual interest rate lending framework in a timely manner, to ensure that LICs' protracted balance of payments (BoP) needs and deeper structural impediments can be appropriately and comprehensively addressed within the PRGT.

Adequacy of concessional financing

8. **Funding strategy:** We support the two-stage funding strategy to finance crisis-related lending and preserve the PRGT lending capacity. We note that the success of the proposed framework largely depends on securing additional resources. As such, we encourage efforts to mobilize the required SDR12.6 billion additional resources under the first phase, and appeal to countries with stronger external positions to pledge resources, including excess SDR allocations, to enhance the PRGT's lending capacity and help ensure the PRGT has adequate resources to support LICs through the recovery phase. We endorse the proposed burden sharing and the flexibility to encourage subsidy contributions. We also urge staff to closely monitor the PRGT resources through the end of phase one of the PRGT funding strategy and support annual reviews of PRGT financing to ensure the adequacy of the facility and allow for the adoption of contingency measures if warranted, while also guiding the long-term financing trajectory. We encourage staff to continue exploring measures to ensure the adequacy of PRGT resources in the second stage, covering all financing options including from internal resources.

9. **Creation of two new PRGT accounts:** We support efforts to facilitate bilateral subsidy contributions through the creation of the Subsidy Reserve Account (SRA) and the Deposit and Investment Account (DIA). Creation of these two accounts helps to address the shortcomings of the current Reserve Account. We are assured that the DIA could enhance the sustainability of the PRGT resource with the proposed 10+ years agreements with the option of an encashment regime. *Nonetheless, the proposed long-term strategy could require an additional contingency plan in the event of extreme cases of urgent BoP challenges that call for sizable early encashment, and thereby affect the adequacy of the facility. Staff comments are welcome.*

10. **Interest rate mechanism**: Finally, we support maintaining the existing PRGT interest rate mechanism through July 2023 but encourage timely work on the dual interest rate mechanism. At the same time, we look forward to finalization of related workstreams on the role of new trust funds in augmenting the IMF's lending instruments, and on strengthening the Fund's role in Fragile and Conflict Affected States.

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GRAY/21/1963

July 12, 2021

Statement by Mr. Chodos, Mr. Herrera, Mr. Lischinsky, and Mr. Corvalan Mendoza on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the set of documents on Fund Concessional Financial Support for Low-Income Countries (LICs) – Responding to the Pandemic. We also thank for recent outreach with the Executive Board for a Q & A session.

We welcome staff proposals to adjust temporarily the Fund's concessional lending toolkit until the next full review, as well as the suggestions to rebuild the financial position of the PRGT in the near term. The COVID pandemic has created a unique set of health, economic, and financial challenges for the *whole membership and especially* for LICs. The Fund has stepped up its *technical* and financial support to them since the onset of the crisis, but these countries will continue to need exceptional assistance in the years ahead to ensure a healthy, inclusive, and sustainable recovery and resume their economic and social development.

The agility to find solutions for the membership in times of need and high uncertainties is valuable and well justified. With the pace of recovery uneven among developed, developing, and LICs, when the health of the population and the economy are still hinging on the evolution of a successful vaccination roll-out, the IMF should buttress adequate policy support to vulnerable members and mitigate the divergence of recoveries among economies.

We support the proposals to the concessional lending frameworks (*as set in SM/21/120, Supplement 2, 07/08/2021)*, including raising *annual and cumulative* limits on access to the PRGT, eliminating the hard limits on exceptional access to the PRGT, strengthening program safeguards, and retaining the zero-interest rate on PRGT loans. *New blending rules for PRGT and GRA seems appropriate to avoid potential flips and flops on determining the blend status of a country in any point in time. The new blending rules would bring clarity and simplicity on its implementation.* These *proposals* will provide more flexibility to respond to LICs exceptional financing needs during the pandemic and the recovery.

***Nevertheless*, we stress that country access to the concessional facilities** must continue to be determined case-by-case, carefully considering balance of payments needs, program strength, debt sustainability, and repayment risks. We acknowledge that raising the thresholds for exceptional access may increase the PRGT credit risk, which calls for additional safeguards and scrutiny by staff to mitigate *these potential outcomes*.

We support staff's proposal of a two-stage funding strategy. The depth of the crisis is unevenly impacting the membership, where LICs were particularly hit. Their limited policy space to manage and respond to COVID-19 pandemic made the authorities' policy tradeoffs more difficult. In this scenario, the PRGT appears to be significantly underfunded *to support the economic and social needs* in the near term. Additional loan and subsidy resources are needed to cover the extraordinary and temporary financial requirements related to the pandemic. A decision about the long-term PRGT resource envelope could be delayed until the next full review of concessional lending by 2024/25. By that time, hopefully the pandemic negative effects would recede, and more information be available to calibrate the optimal IMF financial size, to find a lasting solution to PRGT self-sustainability.

The creation of Deposit and Investment Account (DIA), and Subsidy and Reserve Account (SRA) are welcome steps. The former would create a new source of PRGT funding and could serve to address institutional constraints that prevented some members from participating in concessional loan schemes. The latter would provide more protection to loan account lenders in case the reserve account resources were exhausted.

During the last G20 meetings, their members discussed on a clear path for allowing rich countries to contribute some $100 billion worth of newly issued IMF reserves to poorer countries. On that topic, Mr. Okamoto declared that the …"goal was to be able to present a viable option for channeling newly issued Special Drawing Rights to countries in need by the time the $650 billion allocation is completed at the end of August". *Could staff share more details on the possible outcomes of the G20 on this topic and if these could change the two-stage funding strategy for the PRGT?*

Finally, we take positive note of the Fund's ongoing work efforts to support LICs. The catalytic nature of the Fund's support and the technical assistance to buttress prudent fiscal, monetary, and financial policies' implementation are of outmost important under current circumstances. There is an urgent call to avoid a reversal of LICs development gains.

GRAY/21/1964

July 12, 2021

Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Nguema-Affane on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the comprehensive set of papers and the technical Q&A session. We welcome the proposed package of policy reforms and funding strategy of the PRGT for the Fund to adequately meet current and projected high financing needs during the pandemic. We particularly appreciate the comprehensive analytical work on lending scenarios to ascertain prospective PRGT resource needs and develop a realistic funding strategy. This approach will contribute to enhance the lending capacity and reserve coverage of outstanding credit over the medium-term and preserve the self-sustainability of the trust fund over the long-term.

We support the proposals made in the report, as they mainly aim to increase the PRGT lending capacity over the medium-term by simplifying some provisions, or keeping exceptional provisions adopted over the past months until the next review of Fund facilities for LICs in 2024-25. While those proposals will help mitigate multiple enterprise risks and will generate risks within acceptance levels, increased vigilance will be needed going forward to contain risks to PRGT resources. We therefore focus our comments on the following issues for emphasis.

Due to Covid-19 fallout and preexisting resource gap for development, LIC financing needs will remain substantial in the 2020s. We commend the Fund's rapid and substantial support to the membership during the pandemic through the provision of emergency financing, debt relief and the forthcoming SDR allocation, as well as better-tailored policy advice and technical assistance. Many countries are now engaging in UCT-quality programs to support their recovery and enhance their resilience to shocks. However, as recent staff reports have pointed out, many countries are facing significant financing constraints which prevent them from supporting a sustainable recovery while addressing the impact of the pandemic. These constraints include limited fiscal space, higher debt vulnerabilities and, for low-income countries, scarce concessional resources. In addition, there remain considerable uncertainties around the outlook of LICs and their financing needs will remain substantial due to the long-term effect of the pandemic, considering also that structural reforms underway to build resilience could take time to bear fruit. As a result, demand for Fund resources is expected to increase and remain high over the medium term.

Against this background, we welcome the proposals to enhance the lending framework to help meet LICs' financing needs throughout the pandemic and the recovery period. We agree that by making more concessional resources available to LICs, those proposals would help contain debt vulnerabilities as otherwise LICs would resort to more expensive sources of financing to cover their financing needs.

We therefore support the proposals in Box 1, including increasing access limits by setting the limits on ***normal access*** to the PRGT at 145/435 percent of quota. As for the ***temporary increase of limit on annual access to 245 percent*** through end-December 2021, we are of the view that this limit should revert to 145 percent in the medium term rather than in six months' time. The slow pace of the recovery in LICs and the need to frontload significant resources in some programs call for maintaining for a longer period the limit of 245 percent of quota. We welcome the ***proposal to remove hard caps on access to PRGT resources*** for countries eligible for exceptional access (EA).

We support the proposed ***simplification of access norms*** but would have preferred a suspension until the next facilities review as it would make the framework easier to understand and end the confusion between access limits and norms. Indeed, staff indicated in the Q&A session that norms are neither a maximum nor a minimum. Yet, it is used to cap access to PRGT under blending rules. Given that access should be ultimately determined by BOP needs, we do not see the rationale for keeping access norms. This issue should be addressed in the next review of Fund facilities for LICs.

On ***safeguards***, we support the alignment of the PRGT EA criteria with the Policy Safeguards in cases of High Combined Credit (PS-HCC) requirements that would make countries at high risk of/in debt distress eligible for PRGT EA without any requirement for debt restructuring or debt relief operations.

On the ***blending policy***, we support the proposed simplification of the blending rules to ensure a more robust blend status. In particular, we support enhancing the income criterion and simplifying the prospective market access criterion to reduce the risk of premature access to or exit from blend status. However, the fact that a country that has market access may not blend because it does not meet the income threshold runs the risk of having countries borrowing in capital markets at higher costs compared to the GRA resources. That would be counterproductive with regard to debt sustainability objectives. Staff should remain vigilant of such developments. *We would appreciate staff comments on this issue*.

As regard the ***interest rate mechanism in the PRGT***, while we do think that a unique interest rate in the PRGT with blending remains appropriate given the current circumstances, we also see merit in exploring a dual interest rate structure that could allow full financing within the PRGT for presumed blenders. We look forward to the staff findings on this issue. In the meantime, we support setting the PRGT interest rate at zero until end-July 2023.

On the ***funding strategy***, we support the proposed two-stage approach. This strategy has the advantage of de-linking the fundraising efforts needed to shore up the PRGT's lending capacity over the medium-term at the first stage, from the second stage where more funds will be raised for the PRGT's long-term self-sustainability. For the first-stage financing, we thank member countries that have already indicated their intention to contribute to the PRGT with their "excess" SDRs, including from the proposed new allocation. We fully support the suspension of PRGT administrative cost reimbursement through FY2026. As regards the second-stage fundraising, as we stressed in previous meetings, gold sales and alternative options should be strongly considered, especially if a dual interest rate structure is adopted later. We look forward to the next review of facilities for low-income countries to discuss the longer-term self-sustainability of the PRGT lending capacity.

We agree that ***annual reviews of concessional resources and fundraising progress*** during the first stage will be needed to ensure that the funding strategy remains on track. We appreciate the early identification of contingency measures to preserve adequate PRGT's lending capacity in case underlying assumptions of the funding strategy do not materialize.

Finally, we support the ***creation of two new PRGT accounts, the Subsidy Reserve Account (SRA) and the Deposit and Investment Account (DIA)***, that are designed to receive members' contributions and support the subsidization of the PRGT lending.

GRAY/21/1969

July 12, 2021

Statement by Mr. Moreno, Mr. Cartagena Guardado, and Ms. Moral Betere on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for their insightful and well-written report. We generally endorse the proposed reform of the PRGT framework and the funding strategy. We are of the view that the Fund should play a larger supportive role in PRGT countries, aiming to support LIC countries in their recovery from the pandemic and helping them to achieve a sustainable and inclusive growth. In addition, given the sizable financing needs, this should not conflict with its traditional catalytic role of attracting other multilateral, domestic and international resources.

We support the proposed reforms to enhance the PRGT access framework. These reforms include: the increase in access limits, placing them at 245/435 until the end of 2021 and 145/435 in 2022, the simplification of exceptional access and the elimination of the hard caps (33.3/100) on the normal access limits.

The proposed additional safeguards should mitigate risk vulnerabilities; the Fund should help provide capacity to comply with them. While these reforms come with some risks, in an environment of already high debt vulnerabilities, we consider that this can be effectively mitigated through the existing risk management framework and the enhanced safeguarding proposals, including the safeguards on debt sustainability and capacity to repay. Furthermore, we agree with the maintenance of the higher levels of flow and stock triggers introduced in March 2021. The Fund should provide countries with an adequate ability to comply with these safeguards through capacity development.
Finally, we would like to underscore that, despite these measures, the scale of Fund arrangements must continue to be determined on a case-by-case basis, informed by country specific needs and constraints, and based on standard access policy criteria.

We support the proposals to modify the blending framework to make it more robust and simpler, and we encourage staff to continue exploring the alternative approach to the blending policy. We welcome the adjustments on income thresholds, market access and debt vulnerability, focused on making blending criteria more robust given the scarcity of concessional resources. In addition, we welcome the new unified standard that maintains PRGT-GRA mix at 1:2 but with PRGT financing limited to 145 percent quota which reduces complexity. Finally, we see merit in staff's alternative approach to the blending policy that would introduce a dual rate mechanism in the PRGT. This will not only help to reduce pressure for subsidies of the PRGT but also will better address specific needs arising from programs. We encourage further work from staff on this front given the important implications that this new approach may have in terms of higher PRGT credit outstanding and lower reserve coverage of the PRGT.

Given the continued exceptional circumstances and the uncertainty surrounding the outlook, we support a two-stage funding strategy. Regarding "stage one", we remain concerned about the SDR 2.8 billion deficit in the subsidy account. We note that staff plans to partly finance it via a temporary suspension of the reimbursement to the GRA through 2026 (SDR 0.5 mm), and partly via a broad burden-shared bilateral grant fundraising campaign (SDR 2.3 mm). We welcome the flexible approach to facilitate contributions through different modalities and timing, including by creating two new PRGT accounts for donor contributions: The Subsidy Reserve Account (SRA) and the Deposit and Investment Account (DIA). *These accounts would be most useful if they can guarantee the reserve nature of the assets invested on them, we would welcome staff´s comments. For instance, on the DIA, we are not sure about the possibility of incorporating the encashment regime (in either of its two modalities) and that a "minimum profitability" could be guaranteed in the current context of low interest rates.*

We call on exploring further the use of the Fund's internal resources, including the sale of gold. The SRA and the DIA may conflict with domestic legal and institutional frameworks, leading to budgetary grants as the only feasible option for many countries. However, considering budgetary constraints in most countries compounded by donor fatigue, and given the recent experience with the CCRT and Sudan, this fundraising effort could be challenging. We ask staff to explore every option, including gold sales. Given how long it takes to make effective these sales, we would urge staff to promptly initiate the work on the potential use of internal resources, taking advantage of the current political momentum within the international community to coordinate efforts to address the effects of the pandemic. In this regard, we appreciate staff's presentation of potential contingent measures. We find particularly compelling the possibility of making a "gold pledge" as an alternative to selling it. *It would be interesting if staff could elaborate this option further. Additionally, we would welcome comments by staff on the potential use of the IMF's own portfolio of SDRs, including whether they can also be invested in the SRA or the DIA.*

In the next full review of concessional financing and policies scheduled for 2024 or 2025, an appropriate longer-term, self-sustained envelope PRGT should be accomplished. We agree that a partial "rechanneling" of SDRs would facilitate the mobilization of additional PRGT loan resources. Rechanneling of SDRs should also be evenhanded and able to benefit not only LICs but vulnerable middle-income countries as well. In this regard, we look forward to the next board meeting on options for SDR channeling. Regarding the subsidy account, the use of internal resources will be important, and all the work advanced today will be useful in feeding future discussions, including specially a limited sale of IMF gold.

We concur with staff that the adequacy of PRGT resources would need to be carefully monitored in the first phase of the funding strategy. We therefore agree with the proposal for the Executive Board to review the evolution of lending and fundraising developments on an annual basis, and if necessary, consider possible contingency measures ahead of the second stage review**.**

We believe that the current PRGT interest mechanism remains appropriate and we support that PRGT rates on all facilities will be set at zero through the end July 2023. Going forward we see merit in revising the interest rate structure of the PRGT as interest rates evolve and in line with a potential reform of the blenders, considering the costs and benefits to this group of countries in the context of the post-COVID world.

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GRAY/21/1972

July 12, 2021

Joint Statement by Mr. Huh, Ms. Lim, Ms. Johnson, Mr. Mahyuddin, Mr. Yoo, and Mr. Dacharux on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the proposals to step up Fund assistance to LICs in response to the exceptional shock of COVID-19. Timely and adequate Fund concessional financing will be both necessary and critical for LICs to secure a more sustainable recovery from the adverse socio-economic impacts of the pandemic. It remains critical to ensure that Fund financing remains catalytic in nature and appropriate safeguards are in place to mitigate the increased risk exposures. **We broadly support staff's proposals, both the PRGT policy reforms and the two-stage funding strategy as outlined in the paper.**

The proposals on access limits and norms, a more robust and simplified blending framework, and maintaining the concessional rate at zero, are sensible and welcomed. Financing needs of LICs will continue to be substantial for the periods ahead as the countries face the pandemic aftermaths and navigate the fragile exit. Hence additional flexibility and engagement from the Fund is necessary. The reforms will allow eligible countries to continue to receive financial assistance commensurate to their respective circumstances and avoid resorting to arrangements with less favorable terms and conditions.

The Fund's level of financing through strong UCT-quality program should remain appropriate, considering its role to catalyze other external financing and maintain the self-sustainability of the PRGT framework. Given the large financing need and high indebtedness, the Fund should enhance its engagement with other development partners and financial safety net arrangements to address the overall financing gap and ensure greater burden sharing. While noting that the elimination of hard caps may elevate credit/repayment risk and potential concentration risk, we can agree to the current proposal to ensure that eligible countries receive the necessary support to finance strong adjustment programs. Even with the removal of the hard cap, the proposed arrangements must meet the PRGT EA criteria and access levels for all financing requests should continue to be based on case-by-case assessment of program design and country circumstances. We also urge staff to revisit the hard cap in the next comprehensive review.

We are supportive of the accompanying strengthened safeguards to address concerns over debt sustainability and capacity to repay. As part of the multi-layered framework, it will be critical to ensure that the program objectives are tailored to support medium-term development. The Fund should also ensure that the countries have the institutional capacity to undertake the necessary reforms and manage their high level of debt. In this regard, the Fund should enhance capacity development initiatives and technical assistance to ensure that the countries receiving financial assistance are set on the right path and are able to equip themselves with sound policies to enable sustainable recovery from the aftermath of the pandemic. On this front, we continue to emphasize that the Fund's support should take into account the exceptional circumstances and vulnerabilities of sections of our membership, especially the small developing states.

We see merit for staff to explore reforms that would introduce a dual interest rate mechanism in the PRGT, especially taking into account the benefit of differentiating the treatment between blend and non-blend LICs in terms of cost of financing and policy challenges such as protracted BoP problems. To this end, we encourage staff to do more in-depth analysis of this potential reform so as to understand the possible rise in PRGT credit outstanding and its implication to the reserve coverage ratio.

We support the proposed two-stage funding strategy. We agree with staff that such a strategy is required given the large uncertainties around the pandemic and the actual demand for concessional support, as well as to support PRGT self-sustainability. For "stage one", we are supportive of raising additional loan resources, especially in view of the upcoming SDR allocation. We can support the strategy to increase the subsidy resources through the suspension of reimbursement to the GRA through FY2026 and bilateral grant fundraising campaign. We would also be open to suspending the reimbursement for longer beyond FY2026. Providing flexibility in term of timing and methods of contribution is extremely helpful to potential donor members given the competing financing demands on many fronts. We thus welcome the proposed creation of two new accounts, SRA and DIA, which would promote further bilateral PRGT subsidy contribution and capitalize on the potential use of new SDR allocation.

We encourage staff to continue to explore further the possible use of Fund internal resources. To ensure the reserve coverage remains above 20 percent, all financing options and fundraising should be considered, including from internal Fund resources given the expected net reduction to credit outstanding in the GRA. Staff should begin an in-depth study on the optimal use of Fund resources and its impact to help facilitate the discussion. On the potential use of gold sales or a gold pledge, we would welcome early analysis and consideration, including how it would affect the Fund's balance sheet and asset prices. Discussions on this should begin sooner rather than later, as it likely involves lengthy processes and views remain mostly mixed.

The proposed annual review of concessional resources and fundraising efforts is highly welcomed and will be an opportunity for the Board to understand financing constraints. We are encouraged to hear from staff during the Q&A session that this annual review will be made more comprehensive by taking into account other aspects of the LIC facilities, including considerations on contingency plan and early actions and we would also look forward to reserve coverage considerations. We view that this regular update and assessment will help inform and complement the full review of LIC facilities expected in 2024-25. The timing of the next full review should remain flexible and can be brought forward if situations warrant.

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GRAY/21/1973

July 12, 2021

Joint Statement by Mr. Palotai, Mr. Pösö, Mr. von Kleist, Mr. Dresse, Mr. O'Brolchain, Ms. Ekelund, Mr. Harvan, Mr. Voinea, Mr. Weil, and Ms. Koh on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary) Executive Board Meeting 21/71 July 14, 2021

We thank staff for further developing the proposal and seeking solutions to how the Fund could best support Low-Income Countries (LICs) facing adversities due to the pandemic. We remain ready to support a sustainable temporary step-up of the Fund's concessional resources targeting the most vulnerable within the mandate of the IMF. As indicated in recent board discussions, we weigh these proposals with the objective of preserving the unique role of the IMF as lender of last resort, as well as the catalytic nature of its activities and awareness that **many PRGT countries are already facing high risks of debt distress.** Against this background, we regret to see that the staff papers fell short of including information on the financing role of other institutions under the proposed approach, such as MDBs, which are better suited to address the needs of LICs for highly concessional and/or grant financing. *We ask staff for further information of how the proposed surge in IMF lending and the projections in Table 3 relate to expected flows of financing from other sources over the medium term, including MDBs, RFAs, and bilateral donors. Can staff explain to what extent the resulting expansion of the Fund's exposure to LICs is consistent with the aim to preserve the Fund's catalytic role, recently affirmed by Directors?*

We wonder whether the contribution to be made by the Fund's catalytic role is being explored and utilized to the best possible extent. Specifically, we fear that staff may not devote sufficient attention to the IMF's potential to mobilize comprehensive grants and concessional financing from development partners and donors by providing a seal of approval in form of realistic, yet ambitious, adjustment programs together with moderate super-senior PRGT financing. We note that, in staff's baseline scenario, PRGT credit outstanding would on average make up 11 percent of government debt in LICs in 2025/26. *How does staff assess the concern that the "seal of approval" character of Fund programs could suffer (and with it the aim to unlock other sources of financing), if access to Fund lending is scaled up substantially, while the strength of conditionality cannot be increased commensurately?*

The current proposals fall short of credible financing assurances for a sustainable PRGT framework and we continue to believe that a temporary extension of access limits until end-2021, using the time until the Annual Meetings (AMs) to secure preliminary commitments of funding, would have been more prudent. This would have allowed a better-informed decision on the medium-term PRGT access levels and ensured that we do not end up in a situation where we have to choose between lowered access levels (which would mean a first-come-first-served situation) or gold sales. As a minimum, we request an **update to the Board on the status of the fundraising after the AMs and conducting the next review of concessional policies before the Spring Meetings**.

On the potential policy reforms

PRGT Access Policy
Calibration of PRGT access limits needs to strike a careful balance between responding to LICs' increased financing needs while maintaining the Fund's catalytic role with adequate safeguards and financial sustainability of the PRGT framework. We acknowledge that it would not be desirable for many non-blend countries to resort to GRA financing and can therefore **go along with a temporary increase in PRGT access limits as proposed by staff, with the possibility to revise these limits in upcoming reviews if needed**. As this decision is made in the context of a crisis response, and with still unsecured financing, we believe that the temporary higher access limits should include a **sunset clause** fixed at the time of the next full review of concessional financing and policies scheduled in 2024–25. We emphasize that increasing access limits reinforces the need going forward to exercise careful judgement on the appropriate size of access in each individual case.

We have strong doubts about entirely removing the hard caps on PRGT exceptional access. Keeping some level of hard caps helps to ensure the availability of resources to a broader group of PRGT countries. We can discuss calibrating the hard caps in conjunction with the proposed regular reviews, once the PRGT financing framework is sound.

We broadly consider the current set of norms as a useful to guide access and manage risks resulting from high outstanding obligations, in particular in the context of repeated arrangements, which can be expected to make up a high share of total new commitments over the medium term. *Given that reducing their exposure to the Fund over time presents a substantial challenge for many LICs, can staff offer a new set of projections on the PRGT subsidy gap and funding needs under a scenario that assumes the plateauing of PRGT credit out-standing over the projection period after reaching peak level?*

Exceptional Access and New Safeguards on Debt Vulnerabilities
We strongly support the added safeguards related to debt sustainability and capacity to repay associated with programs that have access above current access limits and for all programs for countries at higher risk of or in debt distress. We especially appreciate the requirements for distinct breakdowns of public external debt in order to assess the share of super senior debt and the more thorough analysis of risks associated with repayment. *Could*

staff clarify how these risks, if noted to be elevated, will be addressed? Will specific guidance be developed to assess the risks related to super senior debt?

Removing the requirement of debt relief or restructuring for countries at high risk of, or in, debt distress that is seeking EA could reduce important incentives to handle high-yield debt in a timely manner, where necessary. This could also undermine the effectiveness of the G20 Common Framework. *A staff comments would be welcome.*

Blending Rules

We support the proposed simplification of the Fund's rules for blending. This would improve robustness, clarify the definition of presumed blenders (PB), and mitigate the challenges arising from countries moving in and out of PB status. At the same time, we are concerned about the substantially increased exposure of the GRA to LICs included in the staff projections (SDR 12.2 billion through 2024 under the baseline and up to SDR 24.1 billion under the high case scenario) and that a significant share of this exposure will fall on LICs with high risk of debt distress. *Can staff comment on the assumptions underlying the projections in Table 3 for use of GRA financing, including under the high case scenario? What is the share of GRA commitments that is projected to be directed at LICs with high risk of debt distress over the projection period 2020-2024?* We do not see merit in completing the reform option of "all-PRGT" financing for presumed blenders at this time as this would put significant stress on loan resources and the reserve account.

PRGT interest rate mechanism

We can accept that PRGT interest rates on all facilities will be set at zero through end-July 2023, particularly given the current economic outlook and challenges in LICs. However, without presenting a holistic review of the interest rate mechanism, it is difficult to assess the appropriateness of the current mechanism. In particular, we would have liked to get an overview of the possible subsidy savings from considering marginal changes to the interest rate mechanism. Going forward, the rules-based mechanism should be allowed to function when global interest rates normalize without unnecessary adjustments in order to prevent nonzero interest rates of PRGT financing. It is important to preserve appropriate incentives for the use of finite PRGT resources.

Funding Strategy

The immediate challenge for scaling up PRGT financing is to ensure sufficient resources for the subsidy account and to ensure that the reserve coverage ratio remains firmly above 20 percent, which should be considered as the minimum acceptable level. We would like to highlight that an approach that risks overstating the Fund's lending capacity should be avoided. We agree that a comprehensive funding strategy, based on a combination of different options, is the preferred way. To boost reserve coverage and support subsidy resources, **we are open to support suspending GRA reimbursements for a limited time based on thorough assessments in the course of the annual reviews as proposed by staff.**

We see merit in providing members with a menu of options to contribute. However, we note that many countries, including some advanced economies, may face institutional and/or legal restrictions specifically related to non-budgetary options. **Voluntary bilateral subsidy**

contributions from willing donors are a central element of the strategy, that would require a significant increase in voluntary grants to the Fund. However, as ODA resources are scarce, the implications of a shift of ODA resources from traditional recipients to the IMF need to be carefully and thoroughly considered**.** At this stage, we cannot commit to participate in the fundraising campaign.

We are open to support the creation of two new PRGT accounts, provided they truly add value to the already existing accounts. In particular, we wonder what the added value is of the "Subsidy Reserve Account", given that the PRGT already has a separate Subsidy and Reserve Account. *Could staff elaborate? What would concretely be the added value of putting resources in the SRA relative to dividing the same amount of resources among the existing SA and RA? Regarding the Deposit Investment Account, has staff assessed any potential legal constraints concerning this proposal, especially if contributions would come from central banks?*

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GRAY/21/1976

July 12, 2021

Joint Statement by Mr. Bevilaqua, Mr. Buissé, Mr. Fanizza, and Ms. Riach on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the well-written report and for their tireless efforts to bring these proposals to the Board. The quality and comprehensiveness of the paper are very welcome. We strongly support the proposed PRGT policy reforms as they will help to ensure that the PRGT is fit-for-purpose in supporting countries as they navigate the pandemic and recover. We continue to see a strong case for mobilizing internal resources and ask staff to continue exploring it in the months ahead. That being said, we can support the current two-staged financing proposal due to its pragmatism. We would like to offer the following specific comments:

- **We strongly support the proposals to enhance the PRGT lending framework.** The increase in normal access limits to the PRGT and the elimination of hard caps on exceptional access provides the flexibility for the Fund to support PRGT-eligible countries with higher levels of concessional financing, if needed. It also critically avoids pushing these countries into costlier GRA financing, which entails requirements that are less suited to PRGT countries' needs. This is of utmost importance in a context where poorer countries have significant financing needs, less domestic space to support their recoveries, and where adequate concessional financing will be needed to resume convergence paths and reduce poverty. We reiterate that higher access limits are not targets. Instead they allow for the amounts of each arrangement to be determined by the Fund's standard access policy, which include assessing the country's needs, the strength of its policies and its capacity to repay. As such, access will not be artificially constrained by the PRGT financial envelope. While we do not see a strong case for keeping access norms and would prefer to suspend their application until the 2024/25 Review, we can go along with the proposal of a unified norm of 145 percent of quota, with the strong expectation that flexibility in implementing it will prevail.

- **We fully support the additional safeguards on debt sustainability as endorsed by the Board in March 2021.** These safeguards, coupled with a thorough analysis of country-specific needs and constraints in each arrangement, and adequate program design, are the appropriate mitigating factors for potentially higher credit risk. We also support the proposal to retain the higher thresholds for triggering the High Access Procedures that were introduced in March 2021, until the next full review. We likewise agree with the simplification of the exceptional access (EA) criteria by aligning the PRGT EA criteria with those of the Policy Safeguards on High Combined Credit.

- **The Fund should provide technical assistance and other support for capacity development** to make sure that weak capacity does not impede countries' abilities to adhere to safeguards, and thereby constrain Fund financial support.

- **We support the simplification of the blending rules** with the aim of decreasing the frequency of back-and-forth shifts in the classification of countries between presumed blenders and non-presumed blenders. We appreciate that the proposal attributes a pivotal role to the income criterion, adding room to absorb marginal changes around the threshold. We agree with simplifying the rules to identify presumed blenders based on market access and public debt vulnerabilities. Furthermore, we support the 1:2 ratio for the funding mix between PRGT and GRA resources.

- **We encourage staff to continue exploring the feasibility of devising a dual interest rate scheme for the PRGT.** We see merit in this idea given that it: (i) promotes a tiering of countries depending on their relative income levels, enabling the concentration of concessional resources on the poorest; (ii) acknowledges that current presumed blenders are still countries with significant needs and may face protracted balance of payment problems for which GRA program requirements are less attuned to; and (iii) would contribute to closing the gap in subsidy needs, even if modestly. However, we note that such a proposal would bring about a substantial increase in PRGT credit outstanding and a sharp decline in reserve coverage in the PRGT and it should be contingent on securing the necessary PRGT resources. We would welcome further analysis on this proposal, including on how the adverse impact on the reserve account could be managed, and on the legal intricacies involved in (further) devising this solution.

- **We would have preferred a funding strategy that relied more on using internal Fund resources starting from phase 1. However, we can support the two-staged approach given it is pragmatic and has the membership's consensus.** We support the ambition to mobilize SDR 12.6 billion in additional loan resources and trust that the channeling of loan resources from the upcoming SDR general allocation will be instrumental to achieving this target. We can support the cooperative efforts to fill the subsidy gap through bilateral grant contributions and the other flexible contribution options outlined in the paper. We welcome that donors will have some flexibility in the timing of, and method for their contributions, as this can help overcome present-day constraints. While we support the proposal to suspend the PRGT's reimbursements to the GRA, we regret to see that this would run up to FY 26 only. We reiterate that it would be a low-hanging fruit to extend this suspension up to FY 31 and if necessary, this should be an early and relatively simple contingency measure to resort to. We support the creation of a "Subsidy Reserve Account" (SRA) and a "Deposit and Investment Account" (DIA) as additional means to receive and manage the different types of contributions.

- **We note the challenges in closing the subsidy gap given multiple legitimate yet competing fundraising needs. Given this challenge, we continue to strongly encourage further reflections over the possible use of the Fund's internal resources, particularly gold sales.** We ask staff to actively explore the option of gold sales ahead of the second stage of the financing strategy in 2024/25.In this regard, the annual reviews of concessional resources and fundraising progress will provide an opportunity to revisit the feasibility of gold sales. In addition to gold sales, we welcome the listing of other possible contingency measures in § 66 should fundraising efforts not yield the necessary resources for the first stage. We agree to keep the PRGT interest mechanism, and the interest rates on all facilities at zero through end-July 2023.

GRAY/21/1983

July 12, 2021

Statement by Mr. Tanaka, Mr. Naka, and Ms. Kikuchi on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the informative paper on review of concessional financing framework, where three elements -- (i) the lending facilities (ii) the members' financing needs and how to fill those, in consideration of the Fund's catalytic role, and (iii) the Fund's resources—are examined comprehensively and simultaneously. Japan has been strongly supporting the Fund's support for low-income countries (LICs) and will continue to do so. We welcome the final proposals on concessional financing review after the deep discussions in several board meetings over a year.

PRGT Reforms

We broadly support all the proposals and will limit our comments to the following points.

We support the proposals for increasing the annual/cumulative limits on normal access to the PRGT to the same level of GRA, 145/435 percent of quota, and eliminating the hard caps on PRGT exceptional access for non-blenders, which will help appropriately respond to LIC's financing needs and promote necessary structural reforms under the UCT programs. **We also support the proposal for simplification of the access norms, setting the access norm at 145 percent of quota for any three-year ECF arrangement,** considering the elevating financing needs in LICs. At the same time, as staff noted, we emphasize that higher access limit doesn't necessarily translate into higher borrowing in individual cases and access should be determined on a case by case basis assessment. We ask staff to continue to provide the appropriate access level of programs by taking account of such factors as BOP needs, the strength of the program, and capacity to repay/debt vulnerabilities while bearing in mind of the Fund's catalytic role.

On safeguards, we welcome and support the proposal for maintaining the new measures on debt sustainability and capacity to repay which were introduced in March 2021. We also support the proposal for aligning PRGT Exceptional Access criteria with those of the Policy Safeguards for High Combined Credit (PS-HCC). As for High Access procedures, we can also support the proposal for retaining the flow and stock triggers at the higher levels introduced in March 2021 until the next review of LIC facilities. Given that the accurate debt data is essential for these safeguards to play their roles sufficiently, we reiterate the importance of capacity development to improve debt transparency including the data accuracy.

Regarding the blending rules, we support all the proposals for i) adjusting the income threshold, ii) simplifying the role of market access and debt vulnerabilities and iii) simplifying the rules for determining the mix of PRGT and GRA resources in arrangements for presumed blenders. **As for the possible future reform option that allow presumed blenders to fully access the PRGT at a differential interest rate, we encourage staff to continue exploring it** as we see it would have advantages to incentivize presumed blenders to graduate from the PRGT while strengthening the PRGT subsidy resources.

Financing Strategy

There is no question that PRGT should have sufficient resources to respond to financing needs in LICs and we appreciate staff for their every effort to seek the appropriate and efficient way to secure the necessary resources. **We 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 long-term solution to PRGT self-sustainability**, given the significant uncertainty over financing needs and demand for the Fund's concessional financing in LICs. **We also agree with the proposal for the annual review on concessional resources and progress with the fundraising.**

While we well recognize the necessity of bilateral grant contribution in fundraising of the subsidy resources, **as a prerequisite for asking member countries for grant contribution, the Fund's own effort is essential for donor countries to achieve political accountability to taxpayers for the necessity of additional contribution.** We note the possible use of internal resources such as i) "gold pledge" as one of the contingency measures against the significant fundraising shortfall in the stage one and ii) limited gold sales in the stage two, if necessary. However, we are still of the view that the Fund should seek these options at this juncture to help donor countries fulfill accountability to taxpayers.

We support the proposal to create two new PRGT accounts; a "Subsidy Reserve Account" (SRA) and a "Deposit and Investment Account" (DIA) to facilitate bilateral subsidy contribution and reinforce reserve coverage.

PRGT Interest Rate

We support the proposal to keep zero interest rates for PRGT credit outstanding under the ECF, SCF and RCF until July 2023 based on the approved PRGT interest rate mechanism.

Debt Relief Financing

On CCRT, we cautiously note the shortfall of the resources to provide the 4th or final tranche of debt relief. Given the importance of generating additional fiscal space by debt relief in poorer LICs, **we urge management and staff to step up their fundraising efforts.** As stated in the IMFC statement in last spring meeting, **we would like to reiterate that Japan is ready to consider the additional contribution to the 4th/final tranche of CCRT and encourage others to accelerate their consideration for their contribution.**

GRAY/21/1984

July 12, 2021

Statement by Ms. Shortino and Ms. Lyngaas on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We welcome this robust set of proposals to strengthen the Fund's ability to support low income countries (LICs) in their response and recovery from the COVID-19 crisis. The current crisis has presented an enormous challenge to LICs. The Fund has ably responded, with an unprecedented surge in emergency lending. It is likely that LICs will face an enormous need for concessional finance over the coming years, and the IMF's current toolkit must rightly evolve to respond to this need by right sizing the PRGT to support LICs through their recoveries. Of course, PRGT lending can only be effective if it occurs in concert with countries' own efforts to boost domestic revenues, raise private investment, and deliver on policy and governance reforms that will promote sustainable growth. **We thus support all of staff's proposed decisions, including: increasing PRGT access limits to align with the GRA; eliminating caps on exceptional access to concessional support for the poorest LICs and aligning the PRGT EA criteria with those of the GRA; simplifying the framework for blending concessional and non-concessional resources; creating the Subsidy Reserve Account and Deposit and Investment Account; and suspending GRA reimbursement of the costs of administering the PRGT.** While we support the proposal to increase the limit for PRGT borrowing to enable additional fundraising and creative financing options, we stress the importance of regular Board updates on demand for new lending so as to inform the need for additional financing.

At the same time, we stress that the increases in access limits should not automatically translate into larger programs, and a case by case approach remains critical. We expect that the size of future upper credit tranche (UCT) programs for LICs will be based on the usual criteria, including strength of the program, BOP needs, and capacity to repay the Fund. Further, we remain cautious about loading up LICs with large amounts of super-senior debt, particularly given many PRGT members are facing rising debt vulnerabilities over the near and medium-term. We also see a strong need for enhanced attention to safeguards surrounding fiduciary policies and public expenditure for programs that envision budget support. In this regard, we will need to be mindful that IMF lending is not a substitute for other forms of assistance, and that the PRGT must continue to play its catalytic and complementary role with other multilateral and bilateral support.

Below we provide some specific comments on the proposed reforms:

We support many of staff's proposed reforms that enable the PRGT to meet near-term demand, but believe the proposed blending policies and high-access procedural safeguards require further adjustments. We agree with staff's analysis that many LICs are facing severe financing challenges, and current PRGT access limits would push them into seeking non-concessional finance. Moreover, the large projected external financing needs of many LICs in the coming years reinforces the need to raise limits on access to PRGT resources, while staff's proposed safeguards should prevent countries from using emergency financing as a substitute for a comprehensive program with reform measures. We support staff's proposal to adjust the income threshold and simplify blending eligibility to more cleanly differentiate PRGT eligibility and reduce shifting between categories. We also see merit in further exploring staff's proposal to permit presumed blenders to borrow entirely from the PRGT, but at a less concessional, floating rate. We do not support staff's proposal to leave in place the high-access procedural safeguard triggers at the higher levels introduced in March 2021. Rising debt vulnerabilities in LICs merit increased, and not reduced, procedural safeguards. We urge staff to instead adopt the current practice for GRA high access, in which staff consult the Board on exceptional access programs ahead of any program negotiations. *Could staff clarify how keeping flow and stock triggers for PRGT high access procedures at the levels introduced in March 2021 would impact the list of future countries subject to Board briefings?*

We can go along with the proposal to align PRGT exceptional access criteria with those for blended GRA/PRGT access, although we have some concerns. Staff's proposal to amend the PRGT exceptional access safeguard to mirror the Policy Safeguard for High Combined Credit Exposures risks weakening safeguards around debt for LICs, as debt restructuring would no longer be required as part of the program for PRGT-only borrowers at high risk of or in debt distress. Given that many LICs face rising debt vulnerabilities, this proposal could result in countries relying on donor financing when in fact a debt restructuring or reprofiling would be necessary to restore sustainability. In such exceptional access cases, we will look closely at what measures the authorities will undertake, including their negotiations with creditors, to restore debt sustainability. We also urge staff to use this criterion with caution, so it does not result in creditors delaying a debt restructuring or countries taking on unsustainable debt immediately after the program period.

We endorse staff's proposed two-staged financing plan and welcome the proposals to facilitate additional bilateral financing and raise reserve coverage. However, given the uncertainty around PRGT lending volumes and financing for the reforms, we strongly support staff's proposal for annual reviews – and indeed, <u>more frequent reviews may be warranted</u> to enable the Board to conduct adequate oversight and take contingency measures if needed. We support staff's proposal to suspend the PRGT's reimbursement for the GRA and welcome the innovative proposal to create the Subsidy Reserve Account and Deposit and Investment Account. We would further support a proposal for countries to voluntarily channel SDRs from the proposed general allocation to support PRGT loan resources. Securing commitments towards new subsidy resources will be more challenging – even if these resources are not required up front. We urge staff to provide an update this Fall on the status of these pledges and assessment of the need for contingency plans. We do not support proposals for gold sales or a gold pledge because the complexity and length of time required would undermine our ability to adequately finance the PRGT in the near-term.

We support staff's proposal to keep zero interest rates for all PRGT credit outstanding. We look forward to the next review on PRGT interest rates in July 2023 and recommend including a discussion on interest rates for presumed blenders.

We look forward to more detailed proposals for SDR channeling as a vital part of this financing strategy. In this regard, the Biden-Harris Administration has requested authorization from Congress to lend up to SDR 15 billion to the IMF, and we are exploring a grant contribution. We intend to use these resources to support the global recovery – with some portion going to the PRGT. We would further welcome a proposal to use SDRs to co-finance IMF programs in support of countries' pandemic recoveries and economic transformations, including on climate.

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GRAY/21/1985

July 12, 2021

Statement by Mr. Peter and Mr. Gindrat on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

The proposed reform package to adapt the Fund's concessional financing framework is largely driven by the response to the Covid-19 pandemic. The surge in PRGT financing has been a hallmark of this particular crisis. We commended the Fund for its rapid and large emergency lending to address the immediate impact of the pandemic as well as debt service relief, which has benefitted the most vulnerable members. While we welcome that a number of members have transitioned, or are transitioning, to a regular Fund arrangement, we emphasize the large uncertainty around the medium-term projections of demand for Fund lending. We note with some concern that Fund lending is expected to cover a significant share of the financing needs of many low-income countries (LICs). This might not only impede the Fund's catalytic role but also increase the dependence of LICs on the Fund as a senior debt holder, in a context of already high indebtedness.

As the Fund scales up financial support for LICs, it needs to strengthen the financial position of the PRGT. We welcome the outlined funding strategy for the PRGT, which highlights the necessity of mobilizing additional subsidy resources to sustain higher lending volumes. We stress the need for an increase in reserves commensurate with the expanded PRGT lending envelope. Continued participation in the PRGT hinges on credible assurances to bilateral lenders as well as on the Fund's status as a prudent preferred creditor. In this regard, we welcome that lending safeguards will be enhanced, and we support deeper analysis of debt composition and dynamics in LICs to further refine debt sustainability assessments.

In this vein, we support the close monitoring and annual review of PRGT finances, including on PRGT resource use and progress with fundraising. Such a rolling review process closely involving the Executive Board will allow a continuous assessment and the initiation of further measures if and when needed.

We are in broad agreement with the proposed reforms. We stress that, from a trustee perspective, safeguards that allow the PRGT to sustain its revolving lending remain essential even as the concessional lending framework is adapted.

- We can go along with the proposed changes to the PRGT normal access limits, with the clear expectation of a decline in the normal annual access limit to 145 percent of quota at year-end. This measure will increase flexibility, but we stress that access limits are not targets.
- We strongly support the enhanced financial safeguards, reflecting a case-by-case analysis, and in particular enhanced disclosure and assessments of debt sustainability and capacity to repay. We note that concrete reductions in debt vulnerabilities for members at high risk of or in debt distress will be included as part of core program objectives. We can also support maintaining the flow and stock triggers as procedural safeguards at the present level until the next comprehensive review.
- We agree to the unification of access norms and to revisit them as part of the next comprehensive review.
- We agree to exclude market access as a criterion for PRGT exceptional access. We can also go along with the removal of hard caps. However, we have considerable reservations about removing the explicit requirement that members at high risk of/in debt distress should receive debt relief or undergo a debt restructuring.
- We support aligning the PRGT exceptional access criteria with the policy safeguards applying to requests for high combined access to GRA and PRGT resources as outlined in Annex II.
- We support the proposed changes of the blending rules relating to the relevant income criterion, the relevance of financial market access and debt vulnerabilities, and the funding mix and cap. These changes would make these rules more robust and less complex.

We see no merit in a two-tier system of PRGT interest charges as an alternative approach to blending. Removing the blending requirement would mean no longer applying GRA program requirements for current required blenders. A different program standard would not only alter the sharing of risks between bilateral contributors and the Fund, but it would also weaken the market signaling of IMF support. Furthermore, substantive arguments (i.e. substantially increased PRGT credit exposure and much lower reserve coverage) as well as practical considerations (i.e. necessary design changes to the PRGT) speak against pursuing this option.

We appreciate staff's planning for a range of outcomes on possible funding needs, although we consider the baseline case to be calibrated somewhat on the high side. We understand that current bilateral loan agreements and subsidy resources will be roughly sufficient under the baseline scenario through 2024 (cf. Table 3). Given the large uncertainties about future resource needs, the Board should acknowledge that the magnitudes proposed for additional fundraising reflect best-effort estimates. We consider it likely—and in the case of subsidy resources a near-certainty—that additional funding will sustain the

PRGT for quite some time beyond 2024. A lasting increase in the PRGT's self-sustained capacity to SDR 1.65 billion per year remains a sensible working assumption.

Reflections about longer-term financing of the PRGT must be based on fundamental considerations regarding the future role of concessional financing by the Fund in support of LICs. This might eventually entail considerably expanded PRGT financing. That said, a signaling by staff of a much larger LIC financing role for the Fund over the next decade appears premature at this stage. Such a prospect would also challenge the Fund's catalytic role in its engagement in LICs, its lending safeguards in a program context, and the adequacy of its risk management, among others. We look forward to discussing such a longer-term vision with management in due time.

We can agree to the creation of two new PRGT accounts that will enhance the flexibility in earmarking and in using bilateral donor funding. We are particularly supportive of the possibility of backstopping the reserve account. Assuring an adequate reserve coverage, closer to its historical annual average, needs to be an integral part of a sound approach to risk management and funding.

The illustrative menu of options for possible donor contributions is welcome, highlighting the country-specific circumstances under which any such support will have to be agreed. As a precondition and in support of the upcoming fundraising effort, we agree to increase the PRGT cumulative borrowing limit. We also concur with the suspension of reimbursements of administrative expenses to the GRA through FY 2026, although this will slow down the accumulation of precautionary balances in the GRA.

Lastly, we support the continuation of the zero interest rate for all PRGT facilities until July 2023.

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GRAY/21/1988

July 12, 2021

Statement by Mr. Mouminah, Mr. Alhomaly, and Mr. Keshava on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the detailed paper, which presents a package of policy reforms and a funding strategy to help LICs address the immense challenges arising from the pandemic. We would like to highlight the following points:

Following the exceptional levels of Fund financial assistance following the pandemic, it is important to have the necessary flexibility in UCT arrangements to support a sustained and inclusive recovery in LICs. In this context, the proposed reforms would facilitate provisions of more concessional financing to LICs on a case-by-case basis, reflecting country-specific needs. At the same time, it is critical to ensure that increased Fund financing remains catalytic in helping fill the enormous financing gaps confronting LICs over the medium-term. Also, to help close such funding gaps, the Fund's advisory role, through surveillance and capacity building, cannot be overemphasized in guiding and accelerating countries' domestic reforms. We also continue to support robust safeguards, including closer scrutiny of debt sustainability and capacity to repay the Fund. Overall, implementing ambitious, but prudent, adjustment programs will be critical to help achieve stronger and more inclusive growth as countries exit from the crisis.

On access limits, we support the proposed increased in the normal access limits given the large projected external financing needs of many LICs in the coming years. We also support allowing non-blend LICs to receive all Fund financing from the PRGT as GRA programs are not well-suited to the needs of poorer LICs. In this regard, we endorse the proposal to eliminate hard caps on exceptional access if the criteria are met. Furthermore, we support extending the application of the temporarily increased PRGT annual access limit of 245 percent of quota until end-December 2021.

Regarding access norms, we support the proposed simplification, with a unified norm set at 145 percent of quota for any three-year ECF arrangement. In this regard, it is apparent that the differentiated norms are not suitable in the current circumstances as the pandemic has created large and diverse financing needs across LICs. We also appreciate that the role of norms will be reassessed at the time of the next comprehensive review of LIC facilities in 2024/25.

On safeguards, we agree that case-by-case approach will remain critical to carefully assess debt sustainability and capacity to repay the Fund. In this connection, maintaining the higher levels of flow and stock triggers introduced in March 2021 remains important. We also endorse the proposed alignment of the PRGT-Exceptional Access criteria with the criteria under the policy on Policy Safeguards on High Combined Credit. In particular, we take positive note that programs will have a clear objective of achieving moderate risk of debt distress within the program period.

On the blending framework, we support the proposed modifications, which will make it more robust and less complex. In particular, we are encouraged by the mitigation of likelihood of countries moving too easily between blend and non-blend status by adjusting the income threshold used in determining blend status. In addition, it is appropriate not to require poorer LICs to blend irrespective of their market access status. We also see merit in assessing debt vulnerabilities in determining blend status with countries in debt distress not expected to blend.

On bringing blend countries fully into the PRGT, we take note of significant challenges, including a sharp decline in reserve coverage. At the same time, it will bring benefits to blend countries, as well as generate subsidy resources. We therefore would be interested in staff's continued work to explore reforms that would introduce a dual interest rate mechanism while allowing PRGT-eligible countries to meet all their financing needs from the PRGT.

We continue to support a **two-stage funding strategy**. We take note of the need for SDR 2.8 billion in new subsidy resources, although there is an uncertainty around demand over the coming years. In this context, we support the proposal to suspend GRA reimbursement through FY26 and are willing to consider a longer period for suspension. The creation of two new PRGT accounts that can receive member contributions – a Subsidy Reserve Account (SRA) and a Deposit and Investment Account (DIA) - would provide flexibility in facilitating subsidy contributions and strengthening reserve coverage. However, we should be realistic in view of the budgetary constraints facing donor countries and multiple demands for financial contributions. Given the large subsidy needs, we may need to start discussion on the use of internal resources sooner than envisaged in the paper. Here, we take note of possible contingency measures elaborated in paragraph 66 such as support for a "gold pledge". As far as additional PRGT loan mobilization is concerned, we agree that the proposed new SDR allocation could facilitate it.

We agree with the proposal to keep **zero interest rates** for all PRGT credit outstanding under the ECF, SCF, and RCF through end-July 2023. This outcome is in line with the approved interest rate mechanism.

Finally, we support **the proposal to review** annually concessional resources and progress with stage one fundraising. This should facilitate implementing contingency measures, if needed, in time.

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GRAY/21/1989

July 12, 2021

Statement by Mr. Mozhin and Mr. Shestakov on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for the informative set of documents and the helpful Q&A session. **We broadly agree with the proposed decisions to temporarily adjust the Fund's concessional financing toolkit until the next full review.** We welcome the Fund's ongoing efforts to support LICs in the wake of the pandemic, as well as plans to foment sustained and inclusive recoveries in these countries. However, we believe that access to the concessional financing facilities for member countries should be demand-driven and determined on a case-by-case basis, with adequate safeguards. Increased access limits and norms should be combined with even stronger safeguards regarding debt sustainability and capacity to repay the Fund. We also believe that the Fund's role should remain primarily catalytic in mobilizing support from the development partners, which may be better positioned to address the financing needs of LICs.

We support the proposed changes to PRGT access limits and norms. We agree with staff, that, given the large projected external financing needs of many LICs over the medium term, there is a strong case for increasing the normal annual and cumulative access limits to 145/435 percent of quota, respectively. We also support the temporary increased PRGT annual access limits to end-December 2021. We see merit in removing the hard caps on the access limits for both annual and cumulative access criteria. However, to limit the costs to the PRGT of these changes, access to borrowing should still be determined based on a case-by-case assessment, and lending norms should follow the balance of payments needs, not the other way round. Given the global character of the current crisis and near-uniform adverse impact on LICs, previous layered approach to access norms might be unnecessarily complex, and simpler proposed approach of the unified access norm set at 145 percent of quota for any three-year ECF arrangement is preferable.

The new proposed rules for blending concessional and non-concessional resources would allow for a more robust and transparent financing framework. The new rules are designed to avoid confusion and limit countries' excessive shifts from non-blend to blend status and back due to volatility in per capita income levels and international financial markets sentiments.

Proposed changes in the Fund's concessional financing framework call for much stronger safeguards. While we can go along with the proposed procedural safeguards, we note that increasing the high access procedural safeguards -- in the form of higher flow and stock triggers required for the informal Board discussion -- would contribute to the erosion of the Board oversight over the PRGT lending. The stated rationale for the increased triggers is that, given high levels of PRGT credit outstanding due to the pandemic, additional "modest new access" would trigger procedural safeguards for almost any country. While new access might be modest, overall vulnerabilities and levels of concessional financing for a country would not be, and the Board might still benefit from the assessment which is triggered by the high access procedures.

We support the pragmatic two-staged funding strategy for the PRGT. Medium-term fundraising effort would help to finance crisis-related lending, while post-pandemic review would consider long-term solution to the PRGT self-sustainability. We also support the proposed annual reviews of the PRGT lending capacity and credit risks, which would allow for stronger Executive Board oversight during the first stage of the funding strategy. Many modalities of bilateral subsidy contributions are also likely to positively affect the fundraising efforts.

We support the staff's proposal to keep zero interest rates for all PRGT credit outstanding until July 2023. In many advanced economies the current environment of low interest rates is expected to persist, while demographic factors and productivity trends point to likely further decline in neutral interest rates. Therefore, we consider a scenario of global interest rate increase to be relatively unlikely, and risks for the PRGT's financial position from zero interest rates as contained.

We can go along with the creation of a Deposit and Investment Account (DIA) and Subsidy Reserve Account (SRA). The SRA would provide a welcome backstop to manage credit risk, while DIA would allow members to channel SDRs or currencies to generate investment returns which would be used to subsidize PRGT lending. We note, however, that these accounts' main role is to function as a bridge towards the longer-term self-sustained PRGT endowment model, and some duplication of the functions between different accounts in the new PRGT architecture is bound to reflect its transitory character. *It is still not entirely clear, why PRGT would benefit from "second-line backstop" in the form of the SRA instead of strengthening the first-line of existing Subsidy and Reserve accounts. Staff comments are welcome.*

GRAY/21/1991

July 13, 2021

Statement by Mr. Jin and Ms. Yang on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

We thank staff for a series of very well written documents, the informative Q&A session, and the helpful outreach to our office.

Low-income countries (LICs) have been hit particularly hard by the pandemic, partly owing to their long-standing vulnerabilities and limited policy spaces. Supporting LICs to secure a sustainable recovery from the current crisis would require a multifaceted approach that includes strong domestic reforms, financing support from the international community, and private investment mobilization. There is a solid case for continued international efforts to support LICs in a well-coordinated manner, and the catalytic role of IMF lending should be preserved. While we see merits in scaling up concessional financing to LICs during the crisis period, it should not undermine receiving members' debt sustainability, crowd out other creditors, or increase risks to the Fund's balance sheet.

Overall, we are broadly supportive of most of the proposals, and would like to offer the following comments for emphasis.

On PRGT access limits and associated safeguards. In light of the elevated financing needs from LICs, we support raising the annual and cumulative access limits to 145/435 percent of quota, respectively, and extending the temporary increase of annual access limits under the PRGT to 245 percent of quota until end-December 2021. We are open to eliminating hard caps on PRGT exceptional access. **We stress that higher access limits should not always imply higher borrowing in individual cases, and program size should be assessed on a case-by-case basis, taking account of BOP needs, reform ambitions, capacity to repay, and debt vulnerabilities.** We support staff's proposal to simplify the current access norms with one unified requirement set at 145 percent of quota for any three-year ECF arrangement. With respect to the PRGT EA criteria, we agree to align them with the requirements under the policy on PS-HCC and assess the criteria at each review with the exception of income criterion. The safeguards on debt sustainability and capacity to repay should be retained. We also agree to maintain the procedural safeguards at the modified levels in high access cases until the next comprehensive review.

On blending rules and "all-PRGT." We support the proposed modification of the blending rules by adjusting the income threshold, simplifying the role of market access and debt vulnerability, and specifying funding mix of PRGT and GRA resources. This could improve robustness while reducing complexity. While providing presumed blenders full access to the PRGT at a differential interest rate would have advantages to strengthen PRGT subsidy resources, it would result in a substantial increase in PRGT loan resource demand and a sharp drop in reserve coverage ratio. We notice that the estimated loan resource needs under the "all-PRGT" option were around SDR 42–59 billion, lower than the SDR 51–70 billion projection presented in June proposal. *Could staff comment on the reasons behind the changes other than adjusting the projection period from 2021-30 to 2021-29?*

On PRGT Interest Rate. We support staff's proposal to keep zero interest rates for all PRGT lending under the ECF, SCF, and RCF until July 2023, in accordance with the PRGT interest rate mechanism. We also encourage staff to continue working on differentiated but still concessional interest rates within the PRGT, as setting the interest rates at zero for an extended period of time despite the rising market interest rates would have negative impact on PRGT self-sustainability.

On Financing Needs and Funding Strategy.
We broadly support the two-stage funding strategy given the substantial uncertainties in demand projections. Regarding the stage one medium-term funding targets, the successful PRGT loan mobilization campaign during the crisis will be able to meet the predicted PRGT lending demands in the benchmark scenario over the coming years, so the loan resource gap should be assessed based on the utilization of mobilized resources and program impact. In this context, raising PRGT borrowing limit to SDR 68 billion based on assumptions of high case scenario funding needs appears premature. Therefore, **we encourage staff to revisit the SDR 12.6 billion loan resource fundraising target and raise the PRGT cumulative borrowing limit based on a more pragmatic and reasonable estimate.**

With respect to the subsidy resource mobilization, we support the suspension of the reimbursement to the GRA through FY26 (SDR 0.5 billion) and a burden-shared bilateral grant fundraising campaign (SDR 2.3 billion). While the quota-based contribution can be a guiding reference, given budgetary constraints in most countries and the donor fatigue, **the burden-sharing arrangement for member countries should also be based on voluntary participation.** We see merits in the Executive Board's annual review of concessional resources and stage one fundraising progress, and **among the contingency measures to ensure adequate subsidy and loan resources, a review of the PRGT interest framework**

with a higher, but still concessional lending rates worth further consideration, especially in an environment where the long-lasting low interest rates globally are likely to rise.

Finally, we support the creation of the Subsidy Reserve Account (SRA) and the Deposit and Investment Account (DIA) within the PRGT, to facilitate bilateral subsidy contributions and reinforce reserve coverage. We look forward to the discussion of the proposed investment strategy for the DIA, with a higher ambition on the investment return than the present target. *Could staff elaborate on how to make precise upfront pledge on subsidy resources when the DIA investment return is uncertain?*

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GRAY/21/2003

July 13, 2021

Statement by Mr. Bhalla and Mr. Natarajan on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021

1. We thank the staff for the comprehensive paper on Fund's Concessional Financial Support for Low-Income Countries (LICs) and the extensive discussions held on the subject. The COVID-19 pandemic has severely hit the LICs causing significant macroeconomic difficulties. The Fund has been swift in providing required emergency concessional financial support. Temporary increase in access limits under Poverty Reduction and Growth Trust (PRGT) has been instrumental in delivering necessary support effectively. As the scarring effects of the pandemic persist, we agree on the need for suitable reforms in the PRGT norms to help the needy members.

2. Many LICs experience sharp declines in income level, limited fiscal space and debt-servicing difficulties. We concur that enhancing the access limits can provide critical additional resources to facilitate speedy recovery and achieve macroeconomic stability. Aligning the access limits and exceptional access criteria with general resource account (GRA) are useful as this helps in simplification of procedure and norms. We welcome the tenor of the proposal for providing enhanced safeguards and the need for intense monitoring. *Could the staff comment on the distinct improvements in the proposed safeguards measures in comparison to the existing safeguards.*

3. We find merit in modifying income and market access criteria to reduce the possibility of premature reversal to blend status. As the availability of concessional resources are expected to be scarcer, this will weigh heavily on the future reforms in pricing and other terms for presumed blenders. This assumes importance as the staff envisages significant uncertainty in demand for PRGT lending and thinning reserves in the coming years.

4. It is understandable that the exceptional demand for concessional financing is creating a large financing gap in PRGT. In this respect, it is relevant to note that even under the existing policies credit would have reached around three times pre-

pandemic levels. We concur that the key objective of the proposed two-stage funding strategy should be to achieve self-sustainability of the financing model. Reimbursement of PRGT administrative cost can be helpful in enhancing subsidy resources and reserve coverage.

5. We welcome the various methods for subsidy contribution which provide sufficient flexibility for donor participation. However, raising bilateral resources could become increasingly challenging as the donor countries themselves could face enlarged fiscal burden due to the pandemic. A viable option could be to provide an effective mechanism for voluntary channeling of existing and new SDRs, particularly from advanced economies. *Staff may comment.*

Fund Concessional Financial Support for LICs—Responding to the Pandemic

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/21/71—July 14, 2021

Staff's responses to technical questions are below, including an indication of responses that will be provided orally during the Board meeting.

General

1. We ask staff for further information of how the proposed surge in IMF lending and the projections in Table 3 relate to expected flows of financing from other sources over the medium term, including MDBs, RFAs, and bilateral donors. Can staff explain to what extent the resulting expansion of the Fund's exposure to LICs is consistent with the aim to preserve the Fund's catalytic role, recently affirmed by Directors?

- Staff will respond to this question during the Board meeting.

2. How does staff assess the concern that the "seal of approval" character of Fund programs could suffer (and with it the aim to unlock other sources of financing), if access to Fund lending is scaled up substantially, while the strength of conditionality cannot be increased commensurately?

- Staff will respond to this question during the Board meeting.

Modifying PRGT Facilities and Lending Safeguards

3. 2020 was an exceptional year, a structural break in most countries' income trajectories, to what extent has this affected countries' blend status under the newly proposed 5 percent cut off point?

- Based on 2019 and 2020 GNI per capita data, application of the new income threshold would increase the number of countries that do not meet the income threshold for blending by five: Kyrgyz Republic, Lesotho, Myanmar, Zambia and Zimbabwe. Of these, all except Myanmar (whose 2020 GNI per capita level still exceeds the IDA cutoff but by less than 5 percent) would have moved to non-blend status under current rules as well.
- Separately, an upgrade of the national income accounts in Haiti has yielded a large increase in the measured level of national income: Haiti would meet the income threshold under current rules (with 2020 GNI per capita above the threshold) but not under the new rules (2020 GNI per capita is not 5 percent above the IDA cutoff). Annex III Table 1 of the paper provides more detailed information.

4. Can staff comment whether ensuring all LICs' funding in PRGT will constrain the level of access for higher-income LICs?

- Under the option of providing all-PRGT access to better-off LICs, they would still have full access to GRA resources, which are available to the entire membership. If the financial (and other) challenges of this option – including adequate reserve coverage – are successfully addressed, it could be possible to provide financing solely through the PRGT.

5. **We think the rule changes on market access and debt vulnerability in determining blend status, require further clarification. In our view, it is difficult to anticipate market access for a country in debt distress or at high risk of debt distress, irrespective of past successes. Staff may wish to comment.**

   - Countries in debt distress are not required to blend, either currently or with the proposed new rules.
   - Better-off countries at high risk of debt distress (excluding small and micro-states) with substantial past market access will be required to blend. The change will remove the need to make assessments of prospective market access, which has proven difficult in practice, and simplify the blending framework. If countries at high risk lose market access (and do not enter into debt distress), they will cease to meet the past market access criterion with a lag.

6. **Could staff clarify how these risks, if noted to be elevated, will be addressed? Will specific guidance be developed to assess the risks related to super senior debt?**

   - Staff will respond to this question during the Board meeting.

7. **Removing the requirement of debt relief or restructuring for countries at high risk of, or in, debt distress that is seeking EA could reduce important incentives to handle high-yield debt in a timely manner, where necessary. This could also undermine the effectiveness of the G20 Common Framework. A staff comment would be welcome.**

   - The final outcome under the current and proposed new EA framework is the same – restoration of low or moderate risk of debt distress. If this can be achieved with realistic policy adjustment or financing from sources other than the Fund, a debt operation would not be needed. Policy adjustments will be scrutinized for realism, including through the LIC DSF realism tools. Staff's assessment is that debt operations would be needed in most cases to achieve a reduction from high risk of debt distress to low/moderate risk.
   - This modification will align this aspect of the PRGT EA framework with the corresponding EA safeguards applying to the GRA and to high combined PRGT and GRA access, which the Board has endorsed as appropriate for managing credit risk.

8. **The fact that a country that has market access may not blend because it does not meet the income threshold runs the risk of having countries borrowing in capital markets at higher costs compared to the GRA resources. That would be counterproductive with regard to debt sustainability objectives. Staff should remain vigilant of such developments. We would appreciate staff comments on this issue**.

   - Countries that do not meet the income threshold for blending (non-presumed blenders) are not required to blend, but they still retain full access to GRA resources. Classification as a non-presumed blender confers a right to access PRGT resources exclusively but not an obligation to use only PRGT resources.

9. **Can staff comment on the possibility of moderating the financing cost to presumed LIC blenders?**

   - Countries required to blend are not eligible for PRGT EA under the current rules or under the proposed rules. The maximum amount that blenders can access from the PRGT under an arrangement has been increased by (on average) 45 percent, which (for large programs) would lower average borrowing costs moderately.

- The financing cost to blenders (assuming there is a 1:2 mix of PRGT and GRA resources) is a 1:2 weighted average of the relevant interest in the PRGT (0 percent) and charges in the GRA.

10. Could staff clarify the criterion in paragraph 41 regarding when debt vulnerabilities are deemed to limit market access, which reads: "Countries are deemed to face such limits on their access to international financial markets if they are i) in debt distress or ii) at high risk of debt distress and a) have had limited past access to international financial markets or b) are small/micro-states." Contrary to the principle asserted in paragraph 42 that countries in debt distress or at high risk will not be required to blend, this criterion seems to imply that distressed countries would still be expected to blend if they previously had sustained market access in the past, while small states in the same situation would not. Could staff clarify this and the reasoning for requiring LICs to blend, while exempting small states?

- Staff will respond to this question during the Board meeting.

11. Could staff clarify how keeping flow and stock triggers for PRGT high access procedures at the levels introduced in March 2021 would impact the list of future countries subject to Board briefings?

- Even with the higher triggers we expect a significant number of high access procedure (HAP) cases. Text table 1 on page 14 of the Board paper shows 14 LICs with outstanding credit above 150 percent of quota. Most of these would trigger the HAP thresholds if they requested PRGT support at the proposed norm of 145 percent of quota, but the higher limits will help reduce the number of relatively low access requests that trigger the HAP due to existing exposure.
- A further 11 LICs have outstanding PRGT credit between 100 and 150 percent of quota. Given the significance of 2020 emergency financing in many cases, a new access request at the norm would trigger the HAP (via the flow trigger) in most of those cases if the pre-March thresholds are applied.
- There have been two HAP cases discussed at the Board (Niger and Togo) since the higher thresholds were adopted in March.
- The PRGT high access procedures, described in Box 2 on page 19 of the main staff paper, kick in at lower access levels than is the case for PRGT (or GRA) EA.

Lending Scenarios and Financing Needs

12. Given that reducing their exposure to the Fund over time presents a substantial challenge for many LICs, can staff offer a new set of projections on the PRGT subsidy gap and funding needs under a scenario that assumes the plateauing of PRGT credit out-standing over the projection period after reaching peak level?

Under an illustrative scenario where the longer-term lending capacity is about 50 percent larger than under the Baseline (i.e., SDR 2.4 billion) and average PRGT credit outstanding in the seven outer projection years (2028–34) is roughly the same as the average for the seven pandemic/peak years (2021–27), the estimated resource needs are as follows:

- The gap in subsidy resources would more than double relative to the Baseline, from SDR 2.8 billion to SDR 6.2 billion; and

- Additional loan needs for the post-pandemic decade (2025–34) would increase by almost SDR 10 billion compared to the Baseline (loan needs are assumed to be the same for the pandemic years, 2020–24).

13. Can staff comment on the assumptions underlying the projections in Table 3 for use of GRA financing, including under the high case scenario? What is the share of GRA commitments that is projected to be directed at LICs with high risk of debt distress over the projection period 2020-2024?

GRA lending commitments to blenders reflect the core proposed changes to blending policies, i.e., the 1:2 ratio and PRGT access capped at 145 percent of quota per arrangement. As can be seen in the first three rows of Table 3, total commitments to blenders are roughly split between 1/3 PRGT and 2/3 GRA. Access per country is calibrated in the scenarios to take into account countries' debt vulnerability and capacity to repay indicators. Only about one-fifth of the total GRA lending commitments for 2020–24 is directed to higher-risk blenders.

Funding Strategy

14. The proposed long-term strategy could require an additional contingency plan in the event of extreme cases of urgent BoP challenges that call for sizable early encashment, and thereby affect the adequacy of the facility. Staff comments are welcome.

For either encashment of loan resources or encashment of investments in the DIA, staff assesses this risk as very small, unlikely to require a contingency plan. The PRGT encashment regime relies on a diversified group of economically strong contributors. DIA investments would be best placed by members with sufficiently strong BoP and reserve positions, and investment strategy would ensure sufficient liquidity of the asset pool.

15. Could staff share more details on the possible outcomes of the G20 on this topic and if these could change the two-stage funding strategy for the PRGT?

Staff do not have further details beyond the statement released after the meeting. It is worth noting that SDRs can already be used to provide resources to the PRGT.

16. We welcome the flexible approach to facilitate contributions through different modalities and timing, including by creating two new PRGT accounts for donor contributions: The Subsidy Reserve Account (SRA) and the Deposit and Investment Account (DIA). These accounts would be most useful if they can guarantee the reserve nature of the assets invested on them, we would welcome staff´s comments. For instance, on the DIA, we are not sure about the possibility of incorporating the encashment regime (in either of its two modalities) and that a "minimum profitability" could be guaranteed in the current context of low interest rates.

The proposed SRA would receive bilateral grants or investment returns to finance PRGT subsidization, and its balances would thus not be reserve assets of members. The main purpose of the SRA would be to complement existing subsidy accounts to provide an additional flexible vehicle for subsidizing PRGT lending while also enhancing reserve coverage by serving as a second-line backstop for the RA in the event of arrears.

By contrast, the proposed DIA is funded with longer-term deposits and investments of members. Contributors' claims on the DIA could count as international reserves, based on an appropriate investment strategy that ensures that the resources are invested in a pool of high-quality assets with limited investment risks (investment returns will depend on the investment strategy and market conditions). The DIA would centralize longer-term borrowing from members for the purpose of generating investment returns that would be transferred to the SRA for PRGT subsidization. Contributors' claims would be remunerated at an agreed rate below the expected rate of return on the investment. A contributor would be able to encash its claims on the DIA in the event it experiences a balance of payments need and would commit to reconstitute its investment once it no longer has a BoP need. The encashment regime would be supported by an investment strategy that retains sufficient liquidity of the asset pool as well as by a sufficiently large number of contributors with strong BoP and reserve positions.

17. We find particularly compelling the possibility of making a "gold pledge" as an alternative to selling it. It would be interesting if staff could elaborate this option further. Additionally, we would welcome comments by staff on the potential use of the IMF's own portfolio of SDRs, including whether they can also be invested in the SRA or the DIA.

A gold pledge refers to a conditional gold sale decision by the IMF. The Fund took such a decision in 1993 which provided that, if certain conditions were met, the Fund would sell up to 3 million ounces of IMF gold to provide additional security to creditors of the ESAF Trust (a predecessor of the PRGT) during the period when ESAF loans to members under the Rights Accumulation Program (RAP) were outstanding. (Under RAP, a group of 11 members with protracted arrears to the Fund in 1989 were eligible to accumulate "rights" to future drawings from Fund resources following their arrear clearance.) The sale of gold was made contingent on certain conditions regarding the Fund's determination of the adequacy of the ESAF Trust's Reserve Account to cover the Trust's obligations to repay its lenders. It was called a pledge as the Fund committed to set aside the gold covered by the pledge and not use it for other purposes without the consent of the creditors of the ESAF Trust. (See Decision No. 10286-(93/23) ESAF, February 22, 1993, and EBS/93/10) The contingency was never met so the actual gold sale never took place.

Since a gold pledge involves a conditional sale of gold, all requirements under the Articles of Agreement for the sale of gold would have to be met, in particular an Executive Board decision with an 85 percent majority of the total voting power. Moreover, it is staff's understanding that some members would have to follow the same domestic procedures before they can vote in favor of a pledge, including legislative approvals (where applicable), as in the case of the Fund's approval of an outright gold sale.

As with outright gold sales, a gold pledge would have far-reaching implications for the Fund, including for the strength for its balance sheet, and would need to be considered carefully. A gold pledge could be a potential contingency measure as a backstop for potential credit losses in the event of large arrears that could risk depleting the resources in the Reserve Account. An outright sale of part of the Fund's gold holdings is one of the options that could be contemplated for the second stage of the PRGT funding strategy as a way to boost the endowment's concessional lending capacity and reserve coverage.

As regards using the Fund's own portfolio of SDRs, the Fund has no authority under the Articles of Agreement for making any contributions or loans for its holdings in the GRA to the PRGT, including lending its SDR holdings to the PRGT's DIA for generating new resources for the PRGT.

18. **Could staff elaborate on how to make precise upfront pledge on subsidy resources when the DIA investment return is uncertain?**
Contributors are requested to pledge their intended total subsidy contribution upfront (even if contingent on domestic procedures), and then have significant flexibility on the modality and timing of disbursements. If a contributor chooses to deliver all or part of its subsidy pledge in the form of returns on a long-term investment in the DIA, the terms of the investment agreement should be projected to deliver the subsidy pledge on the basis of the agreed principal amount, rate of remuneration, and maturity structure, taking into account the longer-term projection for DIA investment returns. One option is to agree on a flexible maturity date linked to reaching the pledged amount of subsidy to be generated from investment. Longer maturities would help mitigate investment risk.

19. **We wonder what the added value is of the "Subsidy Reserve Account", given that the PRGT already has a separate Subsidy and Reserve Account. Could staff elaborate? What would concretely be the added value of putting resources in the SRA relative to dividing the same amount of resources among the existing SA and RA? Regarding the Deposit Investment Account, has staff assessed any potential legal constraints concerning this proposal, especially if contributions would come from central banks?**
20. **It is still not entirely clear, why PRGT would benefit from "second-line backstop" in the form of the SRA instead of strengthening the first-line of existing Subsidy and Reserve accounts. Staff comments are welcome.**
[Answers to both questions 19 and 20]

Different from the existing Subsidy Accounts and the Reserve Account (RA), the SRA would play a dual role: the main purpose would be to receive bilateral contributions in the form of grants and investment returns for the purpose of PRGT subsidization, while at the same time enhancing reserve coverage as a second line backstop for the RA in the event of arrears in the (highly unlikely) event that resources in the RA were to be depleted as a result of very large arrears. The SRA has several advantages over the (alternative) option of contributors directly placing grants in the subsidy accounts and in the RA: (i) resources derived from SDA resources currently funding the RA would not be co-mingled with contributor resources; (ii) grant contributions would more quickly be used for their primary purpose of subsidization (before the RA); and (iii) grants would be used only for coverage of arrears after the resources in the RA are exhausted.

The proposed DIA would become the main vehicle for long-term borrowing of SDRs or currency from members with the objective of generating investment returns for PRGT subsidization. Contributors' claims would be remunerated at an agreed rate below the expected rate of return on the investment. Contributors' claims on the proposed DIA could count as international reserves, based on an appropriate investment strategy and an encashment regime under which a contributor would be able to encash its claims on the DIA in the event it experiences a balance of payments need. Depending on the scale of investments in the DIA, the investment strategy could be designed taking into account the institutional requirements of different contributors.

21. Could staff comment on the reasons behind the changes other than adjusting the projection period from 2021-30 to 2021-29?

The change in the projection period accounts for a small part of the difference. The main reason for the difference is that in the June paper, staff had assumed that the reform would take effect immediately, while the projections now assume that the blending reform would be fully implemented in early 2023, given the complexities involved.

PRGT Interest Rate Review

22. In the event interest rates rise globally before the scheduled review in July 2023, how is that expected to affect the zero-interest rate assumption?

Staff's baseline projections assume a gradual normalization of interest rates over time, eventually triggering an increase in the PRGT rate (to one-quarter percent according the interest rate mechanism) later this decade. If rates were to increase more quickly, the increase could potentially take place in July 2023 already, assuming that the SDRi would average more than 2 percent for the period June 2022-May 2023.

Constituency Codes

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States