September 29, 2021
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/42-1

10:25 a.m., May 24, 2019

1. 2018-19 Review of Facilities for Low-Income Countries—Reform Proposals; Review of the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Countries

Documents: SM/19/100 and Correction 1; and Supplement 1; and Supplement 1, Correction 1; and Supplement 2; and Supplement 3; SM/19/99

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

Length: 1 hour, 46 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
	J. Di Tata (AG)
	G. Johnston (AP)
	B. Saraiva (BR)
Z. Jin (CC)	
	A. Del Cid-Bonilla (CE), Temporary
L. Levonian (CO)	
	S. Benk (EC)
	F. Bellocq (FF), Temporary
S. Meyer (GR)	
	P. Dhillon (IN), Temporary
D. Fanizza (IT)	
M. Kaizuka (JA)	
J. Mojarrad (MD)	
	S. Geadah (MI)
	R. Doornbosch (NE)
T. Ostros (NO)	
	A. Tolstikov (RU), Temporary
M. Mouminah (SA)	
(ST)	
P. Inderbinen (SZ)	
S. Riach (UK)	
M. Rosen (US)	

G. Tsibouris, Acting Secretary
H. Malothra, Summing Up Officer
A. Bala, Board Operations Officer
C. SEC, Verbatim Reporting Officer

Also Present

African Department: B. Clements. Asia and Pacific Department: J. Turunen. European Department: R. Atoyan. Fiscal Affairs Department: M. De Broeck. Finance Department: R. El Khechen Sab, C. Faircloth, C. Gust, T. Krueger, C. Mumssen, H. Nguyen, W. Rahman-Garrett, I. Rutkowska, A. Tweedie, W. Zhang. Institute for Capacity Development: R. Nord. Legal Department: A. Aly, Y. Liu, G. Otokwala, H. Pham, G. Rosenberg, J. Swanepoel. Middle East and Central Asia Department: B. Joshi. Office of Risk Management:

Q. Chen. Strategy, Policy, and Review Department: G. Everaert, E. Gemayel, S. Gupta, K. Lee, W. McGrew, S. Nolan, D. Singh. World Bank Group: P. Chuhan-Pole, E. Le Borgne. Alternate Executive Director: D. Ronicle (UK). Senior Advisors to Executive Directors: G. Heim (SZ), S. Keshava (SA), Z.Mohammed (BR), A. Tivane (AE), C. Williams (CO). Advisors to Executive Directors: A. Abdullahi (AE), D. Cools (NE), D. Crane (US), J. Essuvi (AE), I. Fragin (GR), A. Olhaye (AF), K. Osei-Yeboah (MD), A. Srisongkram (ST), M. Sylvester (CO), S. Alavi (MD).

1. 2018-19 REVIEW OF FACILITIES FOR LOW-INCOME COUNTRIES—REFORM PROPOSALS; REVIEW OF THE FINANCING OF THE FUND'S CONCESSIONAL ASSISTANCE AND DEBT RELIEF TO LOW-INCOME COUNTRIES

Mr. Rosen, Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the excellent papers and for the helpful bilateral engagement. We welcome the opportunity to consider proposals to strengthen the IMF's Low-Income Country (LIC) Facilities. The IMF's financing, combined with the IMF's policy advice and technical assistance, can make a very significant positive contribution to the efforts of LICs, including fragile states, to achieve macroeconomic stability, raise growth, and reduce poverty.

We have appreciated the constructive Board discussions over the past year and a half, weighing different views on an overall access increase, additional flexibilities within the ECF and RCF to meet the specific needs of fragile and small states, and links between this review and important considerations of program design and country ownership. We hope that this resulting reform package will improve the effectiveness of the IMF's lending to LICs. To achieve this goal, reform of facilities must be accompanied by implementation of program design improvements called for in the Review of Conditionality, including stronger attention to growth orientation of programs, debt transparency and sustainability, and governance and anti-corruption.

Following the informal Board in March, we appreciate the refinements staff made to the blending proposal and the complementary work on self-sustainability of PRGT finances and LIC program design (drawing on the Review of Conditionality). We would draw particular attention to the importance of promoting debt sustainability, and we appreciate the attention to debt risks in several elements of the proposal, including on safeguards and the blending rule. Based on these developments, we support the proposed package of policy measures and associated decisions and would like to highlight several points.

Access. We can agree to the proposed overall increase in access, particularly considering that the PRGT financing model builds in some expectations of rising access over time as LIC GDP increases. We also support the targeted access increases in the Rapid Credit Facility and Rapid Financing Instrument, providing for a possibility of two tranches of RCF access to fragile states in a year (linked to progress on a Staff Monitored Program), and a higher cumulative RCF/RFI access limit to accommodate countries hit by large natural disasters.

Safeguards. We appreciate the strengthening of the high access procedures—with the introduction of a debt stock trigger and more information requirements on debt sustainability and capacity to repay. This reform will improve Board oversight of countries with substantial IMF borrowing.

Links to Poverty Reduction. We welcome the renaming of the EDD back to "Poverty Reduction and Growth Strategy," and would underscore that a key objective of IMF programs is to support countries in achieving stability and growth that are necessary to reduce poverty and raise median income. We can agree with the proposed flexibility on the timeline, particularly for countries with limited capacity, but would emphasize that staff should provide a clear rationale for the delay when requesting Board approval.

Standby Credit Facility. We welcome the proposed changes to the Standby Credit Facility to make it more flexible, including removal of access sub-limits and extending the maximum duration to three years. These changes, along with the very important reform to reduce the SCF interest rate to match the ECF interest rate, makes this facility more akin to the SBA. We hope that LICs facing temporary balance of payments pressures will find that the reformed SCF now better meets their needs.

Blending Rule. The refined proposal on blending of PRGT/GRA resources for countries at high risk of debt distress now strikes a more appropriate balance between the goals of conserving concessional resources for the poorest countries, and attention to potential risks to borrowing countries, and risk to GRA and PRGT resources. We thank staff for the elaboration of how they would better define and apply the prospective market access criterion in the case of high-debt-risk blenders, including high expectations on debt transparency. We believe that careful IMF staff judgement, as well as strong Board oversight, will be important in these cases, as indeed it is for all lending to countries at high risk of debt distress.

Concessional Financing Review. We welcome the robust analysis of the self-sustainability of PRGT resources over the coming decade, documented in the Review of Financing of Concessional Assistance and Debt Relief to LICs. We appreciate the brief update on the financing of the Catastrophe Containment and Relief Trust and the status of remaining HIPC countries and the possible application of the Liberia model at the appropriate time. We agree that these topics will require further work. Finally, we agree with the proposed decisions to update the PRGT Instrument for operations beyond 2020.

Mr. Ostros, Mr. Evjen and Ms. Karjanlahti submitted the following statement:

We thank staff for their well-written reports. The IMF has a very important role to play in relation to LICs: fostering economic growth, promoting financial stability, reducing poverty, and building capacity. The severe debt challenges faced by many LICs and their weak capacity to repay is a cause of concern. Broad support, including grants, from other institutions in the international community will remain an important source of financing. The IMF plays an important catalytic role, which calls for close cooperation with the World Bank, MDBs, and donors, also to further crowd in private financing. In countries hit by natural disasters or torn by conflict, the IMF can play a key complementary role to humanitarian and development assistance from other actors. We welcome staff's proposed reform package and their assessment that it is consistent with maintaining the self-sustainability of the PRGT financing framework.

Review of Facilities for Low-Income Countries

We support the suggested generalized one-third increase in access limits and norms to avoid access erosion, as the increase is calibrated to preserve the self-sustainability of the PRGT financing framework. However, we reiterate the importance of careful debt sustainability analysis of potential LICs borrowers. Individual DSAs should strive to include as broad data as possible (contingent liabilities, off-budget guarantees, etc.) while being clear on data coverage and potential gaps and identify capacity development needs. We welcome the suggested strengthening of safeguards against credit risk by modifying high access procedures.

We accept the proposal on blending as it supports targeting scarce concessional resources to the poorest and most vulnerable LICs and is a crucial part of the reform package to ensure a self-sustained PRGT. We welcome the added condition to assess market access on a prospective basis. We emphasize the need for case-by-case judgement instead of automaticity in determining the countries presumed to blend. Debt distress concerns and ensuring debt repayment capacity should be dealt through appropriate program design, conditionality, and strong safeguards, including the implementation of the LIC DSF, to ensure a downward path for debt ratios.

We can accept the proposal to double the annual RCF access limits (in addition to the general access increase) given the suggested safeguards to ensure that the higher access does not become the norm and is linked to a track record of adequate policies. We support the proposed use of flexibility in ECF programs to LICs in fragile and conflict-affected situations as we are sympathetic to the need for more focused and streamlined conditionality in the short term to support stabilization efforts in the context of limited implementation capacity. However, it is important to ensure that the medium-term program objectives and policy framework are clear and well-defined to guide the path towards stronger and durable economic conditions.

We support the extra one-third increase of the cumulative RCF access limit for disbursements associated with large natural disasters. Countries hit by natural disasters should get all the support they need from the international community, but we stress that IMF lending should not be the primary source of financial support in such cases. We agree to align the RFI conditions to the proposed adjustments of the RCF.

We are open to increasing the duration of the SCF to three years and abolishing the access sub-limits for precautionary SCFs. Regarding the duration of ECF arrangements, we acknowledge that under some circumstances, longer arrangements could increase the likelihood of effective program implementation. We do however strongly support that the three-year program horizon continues to be the norm, and that any deviations from the norm must be clearly explained and accompanied by strict and effective conditionality. Longer programs would increase political risks to program success and could increase the risk for a mismatch between program conditionality and developments on the ground, with potential repercussions to successful program implementation. Evenhandedness may also come into play, as longer programs for some could lead to a general call for longer programs.

We support renaming the EDD to PRGS, and the proposed standardization and flexibility in the use and production of PRGS.

Review of the Financing of the Fund’s Concessional Assistance and Debt Relief to Low-Income Countries

We support the amendments to the PRGT instrument and take note of staffs’ calculations showing that proposed reform measures are consistent with the self-sustainability of the PRGT. However, we agree with Staff that the longer-term outlook is subject to greater uncertainty and very careful monitoring is called for.

We agree that the CCRT is an important tool to support countries suffering from catastrophes, and we support addressing the underfunding of the trust as part of the forthcoming update. We encourage staff to make fundraising efforts as broad and transparent as possible to ensure sufficient information about burden-sharing.

Mr. Jin and Ms. Cai submitted the following statement:

The Fund's concessional facilities have been extensively used by Low-Income Countries (LICs) and have provided them with essential support under various circumstances. We thank staff for the informative report, which provides a good opportunity for a comprehensive assessment of the Fund's toolkit for meeting LICs' needs. We are encouraged by the fact that LIC facilities have played an important role in addressing balance of payment (BOP) needs and catalyzing donor support.

Overall, we believe that the LIC facilities should be supportive of borrowing countries' long-term growth while ensuring debt sustainability. The LIC facilities should be result-based and growth-oriented and help PRGT countries to achieve sustainable development goals. Growth enhancing borrowing should be sustainable and not be unduly constrained. Country-specific circumstances need to be taken into full consideration in the staff's debt sustainability analysis. Fund's financing should play a catalytic role to mobilize, support and facilitate internal and external resources, rather than crowd these resources out.

In the meantime, we would also like to share our views to the specific findings as follows:

Access policies and safeguards. We agree to have a generalized increase in access limit and norms for all concessional facilities. Meanwhile, maintaining the three-pillar strategy and safeguarding the PRGT resources remain important. We encourage staff to closely monitor the PRGT resource to ensure its self-sustainability. Early engagement for high access loans will be helpful to better incorporate ED's views into program design. Timely updates regarding the program development, especially when major changes happen in program countries before the formal board meeting are also needed.

Supporting LICs in fragile and conflict-affected situations (FCS). For fragile countries facing conflict or domestic instability, allowing an initial focus on near-term reforms under ECF would help to enhance economic and political stability. Meanwhile, given that countries qualified for ECF are facing protracted BoP problems, a gradual increase of structural reform requirements might be one way to transfer the policy focus to long-term reform as stability risks alleviate.

Supporting LICs vulnerable to natural disasters. We support the Fund's efforts to provide LICs urgently needed liquidity after large natural disasters. At the same time, building ex-ante resilience is also important. We encourage the Fund to assist LICs in addressing capacity gaps on the design, prioritization, and implementation of public investments aimed at strengthening structural resilience against natural disasters.

We are glad to see that existing PRGT loan resources are sufficient to cover PRGT operations over the medium term. We are open to extend the commitment and drawdown period for PRGT lending to end-2024 and end-2029 respectively. A more comprehensive assessment on resource adequacy under different scenarios is needed before we could make our final decision.

Mr. Inderbinen and Ms. Wehrle submitted the following statement:

We thank staff for the Low-Income Countries facilities review reform proposals, the assessment of their impact on PRGT self-sustainability, and the updates on the CCRT and other debt relief initiatives. We understand and support the need to refine some aspects of the LIC facilities architecture to better support the poorest and most vulnerable countries. Overall, we view it as important for the PRGT financing framework to remain transparent, rules-based, and self-sustained. The Fund should also be mindful of the signal it sends at a time of rising public debt vulnerabilities in many LICs. We also would like to reiterate that the catalytic role of Fund arrangements is particularly important in the LIC context. This puts a premium on improving program design and the quality and relevance of conditionality.

Access policies: We can support the proposal of a generalized increase of one third in access limits and norms for all concessional facilities to adjust for access erosion. For exceptional access, however, we do not see merit in relaxing the policy.

Safeguards: We support strengthening the safeguards for high access procedures. At the same time, we emphasize the need to ensure adequate safeguards also in terms of stronger conditionality in high-access cases. We welcome the enhanced assessment of debt sustainability and the capacity to repay for high access cases. In this regard, we emphasize the need to enhance debt transparency and debt coverage by adequately factoring in vulnerabilities stemming from contingent and off-balance sheet liabilities, as well as avoiding any misreporting in the contracting and guaranteeing of non-concessional borrowing.

Blending policies: We remain skeptical about adjusting the blending policy when the risk of debt distress is classified as high. While facilitating the recourse to blending would allow a more targeted use of PRGT resources to the poorest LICs, it would at the same time further blur the distinction between the PRGT and the GRA. Further, the fact that some countries currently have market access – in an environment of low interest rates and a pronounced search for yield – cannot in and of itself be taken as a sign of good health.

Support for Fragile States: We can support raising the annual access limit under the regular window of the RCF. The introduction of the proposed safeguards would be an important precondition. We also agree with the more flexible use of ECFs for FCS to better tailor programs to their near-term stabilization needs and to take into account their limited implementation capacity. We note that the definition of medium-term objectives will still need to make sure that FCS make significant progress toward a stable and sustainable macroeconomic position.

RCF Limits: We can support raising the cumulative RCF access limit for countries hit by natural disasters by one third above the general limit, considering the intensity and frequency of weather-related events. This said, the Fund must focus on promoting ex-ante resilience in vulnerable countries.

ECF and SCF length: We are not in favor of longer ECF arrangements. Although ECFs can already be prolonged to five years, the standard ECF length should remain three years. We believe that the current framework can already accommodate a prolonged engagement with LICs. Under the current framework, ECFs can be extended, if needed, and successor arrangements can follow. Longer arrangements would bind PRGT resources. It is also unclear whether longer arrangements would be more credible in cases where they extend beyond election terms. Furthermore, we do not see merit in loosening the constraints on the use of precautionary or short-term support under the SCF.

Concessional Financing Review: We welcome that the reform package safeguards the self-sustainability of the PRGT financing framework. Given the greater uncertainty and downside risks to the PRGT's self-sustained capacity in the longer-term, staff should carefully monitor the evolution of capacity over time to ensure that it remains in line with the base envelope of SDR 1.25 billion. We also welcome the plan to develop options to address the underfunding of the CCRT in next year's paper. Finally, we can support the amendments to the PRGT Instrument and will look into the feasibility of extending the commitment and drawdown periods with the Swiss authorities.

Mr. Mouminah, Mr. Alkhareif and Mr. AlHafedh submitted the following statement:

We thank staff for their informative papers and for their helpful outreach. We would like to make the following remarks regarding the issues raised in the papers.

We broadly support the reform package, which is consistent with maintaining the self-sustainability of the PRGT financing framework. In this regard, we emphasize the importance of continued stocktaking of experience with the toolkit to meet the evolving needs of LICs and ensure that PRGT resources remain prudently safeguarded to help meet the objectives of Fund's lending to LICs. The proposed reforms will address access erosion in LICs with enhanced targeting to the poorest countries. In addition, we look forward to the continued important catalytic role of Fund-supported programs in LICs. We also support the proposal to amend the PRGT Instrument for operations beyond 2020 and look forward to Staff's update to the Board by April 2020.

We welcome that the reform package was informed by the ongoing wider review of Fund policies. In this connection, we also look forward to the outcome of the review of the Fund's debt limits policy to underscore the importance of careful scrutiny of debt sustainability for countries requesting Fund financial support. Given rising debt vulnerabilities, continued implementation of the DSF and continuously calibrating programs' design and safeguards will be essential.

With regard to access policies, we can support (i) the generalized increase of one-third in access limits and norms for all concessional facilities; and the targeted increases in (ii) the RCF access limits under the regular window; and (iii) the RCF and RFI access limits for countries dealing with large natural disasters to meet the growing demand for Fund's resources from LICs. In this context, we are encouraged by the proposal to strengthen the high access procedures, including a debt stock trigger and more information on debt sustainability and capacity to repay the Fund.

On blending policies, we see merit in removing the exclusion from presumed blending for higher-income LICs at high risk of debt distress provided they have substantial market access, including on a prospective basis. In this context, we concur with staff that the assessment of prospective access to international financial markets would require judgement on a case-by-case basis based on multiple factors, which would require high quality public debt data. Staff's views are welcome on the current status of public debt data quality as used in the Fund's DSA for LICs and whether it will to be sufficient to implement this policy.

We can support the proposals to enhance the flexibility and effectiveness of both the SCF and ECF by tailoring program design to country specificities, including by allowing higher access in cases of precautionary support, extending the maximum length of SCF arrangements and the maximum initial duration of ECF arrangements, and giving more time for the preparation of national development strategies. Here, we underscore the importance of a well-sequenced reform plan with strong country ownership, supported by a coherent technical assistance program from development partners reflecting the country's development and poverty reduction plans. In this context, we appreciate the proposal to rename the EDD to PRGS and to standardize its use across the ECF, SCF and PSI.

Finally, we are encouraged to note that Fund engagement with LICs in fragile situations has helped in catalyzing significant additional support from donors. In view of the need to help fragile states that require additional time to develop capacity to adopt UCT polices, we support the role of RCFs as well as making full use of flexibility allowed under the ECF.

Ms. Levonian, Ms. McKiernan, Mr. Hart and Mr. Sylvester submitted the following statement:

We thank staff for this set of papers and their constructive outreach efforts throughout this review process.

The proposed reforms represent a reasonable compromise among a set of important, but potentially competing, priorities. These include raising access limits in response to economic trends, increasing flexibility to address specific challenges related to fragility and climate vulnerabilities, strengthening safeguards and improving information-sharing with the Board. Importantly, these proposals also include offsetting measures to ensure consistency with the PRGT's three-pillar framework.

Therefore, we support: (i) the proposed package of reforms to the LIC facilities as a whole, (ii) the proposed change to the Rapid Financing Instrument, and (iii) the proposal to amend the PRGT Instrument to extend the commitment and drawdown periods to end-2024 and end-2029, respectively.

Taken together, the proposals ought to improve the Fund's capacity to target its scarce concessional resources towards the poorest and most vulnerable members in a way that better addresses the root causes of instability. Nevertheless, to deliver on this outcome it will be important to put in place a strong implementation plan supported by appropriate guidance. We would welcome further comments from staff on their plans in this regard.

We welcome the synergies between these proposals and key elements from wider policy workstreams related to Fund's support for LICs, including the Review on Program Design and Conditionality (ROC), and building resilience in Developing Countries Vulnerable to Large Natural Disasters. We are also encouraged to note that on-track programs retain their important catalytic role of mobilizing additional donor financing.

We are particularly supportive of the elements of staff's proposed LIC Facilities reforms that will benefit small and vulnerable countries. Among others, these elements include the relatively higher cumulative access limit under the RCF, the corresponding adjustments to the RFI, and enhanced flexibility for both the SCF and ECF. These reforms will help ensure access to PRGT resources to these countries against the backdrop of evolving risks and vulnerabilities, including the increasing frequency and severity of natural disasters. They could provide some flexibility to build ex ante resilience to natural disasters, a top priority for many small states.

That said, we believe further work is needed to sensitize all stakeholders – both internally and externally – to how the proposed revised toolkit could better support building ex ante resilience to natural disasters. Beyond that, we encourage staff to continue to explore ways in which the Fund could utilize its lending toolkit and other resources to help all small states build resilience to natural disasters and other shocks, including through helping to catalyze needed donor funding.

We need to continue to closely monitor how the PRGT's self-sustainability evolves over time. We welcome staff's analysis demonstrating that the proposed changes will more likely than not allow the PRGT to target SDR 1.25 billion in lending over the next decade. We also recognize that these figures are subject to considerable uncertainty on both the demand and supply side, and therefore look forward to regular updates to the Board, as required.

Regarding the Capacity Containment and Relief Trust, we encourage staff to consult members to better understand the drivers of its current funding situation prior to proposing reforms or launching a new fund-raising campaign. We are open to discussing this further as part of the 2020 Update paper.

Mr. de Villeroché, Mr. Fanizza, Mr. Gokarn, Mr. Mahlinza, Mr. Mojarrad, Mr. Raghani, Ms. Riach, Mr. Doornbosch, Mr. Geadah, Mr. Johnston and Mr. Saraiva submitted the following joint statement:

We thank staff for the package of reform proposals to conclude the 2018-19 Review of Facilities for Low Income Countries (LICs) and for the paper on the review of financing of Fund's concessional assistance and debt relief to LICs. We also appreciate their outreach and efforts to incorporate Executive Director's views from previous discussions. The forthcoming changes to the Handbook on LIC Facilities will need to be wide in scope and granular in focus while ensuring increased flexibility to deal with unforeseen vulnerabilities.

We agree with the objectives of the reform proposals--within the self-sustained Poverty Reduction and Growth Trust (PRGT) financing framework--to provide LICs with higher levels of access to concessional financing and longer programs when needed. The reform package will also enable prompt response to specific challenges faced by fragile and conflict affected states (FCS) and countries vulnerable to natural disasters and climate change. The success of the reform package critically hinges on improving the flexibility of the PRGT instruments to better tailor programs to countries' specific and often unique circumstances. LIC facilities must meet the diverse needs of eligible countries while safeguarding scarce concessional resources without unduly restricting access and deterring use. The synergies between these proposals and key elements from wider policy workstreams related to Fund's support for LICs, including the Review on Program Design and Conditionality (ROC), and building resilience in Developing Countries Vulnerable to Large Natural Disasters, are welcome.

Access policies: We support the generalized increase of one-third in access limits and norms for all concessional facilities. In view of the continued erosion of access norms and limits and the need to preserve the financing contribution of Fund program engagement in LICs, alongside the larger funding requirements needed for stabilization due to the rising frequency of exogenous shocks, we note that the one-third adjustment may not be enough to address access erosion in GFN terms, as shown in Figure 3. Moreover, despite the temporary restoration of access in real terms, erosion is projected to resume immediately after this increase. With this in mind, we continue to underscore the need for future reviews to consider all aspects of the PRGT's architecture, as set in the three-pillar strategy to ensure the relevance of the Fund in adequately meeting the BOP needs of LICs.

Safeguards: We believe that the Fund's current access policy and safeguards, have worked well, and remain appropriate. The Fund's current informational requirements for exceptional access (EA), which also apply to high access (HA) under LIC facilities, together with other policy instruments such as the LIC-Debt Sustainability Framework (LIC-DSF) and program design and conditionality, already provide adequate safeguards for Fund resources. Noting that EA and HA windows have largely been inaccessible to most LICs under the current policy and given the success of PRGT programs in reducing debt vulnerabilities, there is a need to balance the additional "stock trigger" safeguard with ensuring accessibility to meet larger balance of payments needs. Nevertheless, we support the proposed clarity on the timing of informal Board briefings for HA cases, in line with GRA practices. Against this background, we agree that the additional safeguards under the proposed review should only apply to HA and EA cases as needed.

Blending: The proposal to remove the blending exclusion for higher-income LICs at high risk of debt distress which have substantial market access is appropriate to ensure that more PRGT resources are available to the poorest and most vulnerable members, while enabling prospective blenders to access GRA resources. We encourage staff to apply judgement cautiously and consistently to ensure evenhandedness and transparency. Given the current clear guidelines in LIC-DSF and in the GRA access policy, could staff elaborate on the context in which case-by-case judgments would be applied and how such decisions would be informed?

Support for countries in fragile and conflict-affected situations: We welcome plans for intensified Fund response to specific challenges faced by countries in fragile and conflict-affected situation and their unique financing requirements. As such, we agree with the doubling of the annual RCF access limits under the regular window, in addition to the generalized access increase. We wonder if the "per disbursement limit" could constrain a timely and adequate response to a significant economic shock. Staff comments are welcome. We also stress the importance for more effective use of RCF, as needed, for countries under SMP building a track record towards an ECF arrangement. We support the full use of the flexibility allowed under the ECF for cases with near-term uncertainties, to focus on near-term targets and flesh them out on an annual basis. We reiterate the need for parsimony and prioritization in setting up structural benchmarks.

Support for countries hit by natural disasters: We agree with raising the cumulative RCF access limit for disbursements associated with large natural disasters, including from climate change. We also support the reforms to the RFI to raise the annual and cumulative access limits by one-third, and the cumulative access limit for disbursements associated with large natural disasters by an additional one-third. We also welcome enhanced flexibility for both the SCF and ECF. These reforms will help ensure access to PRGT resources to countries hit by natural disasters including some small states, against the backdrop of evolving risks and vulnerabilities, including the increasing frequency and severity of natural disasters. They could provide some flexibility to build ex ante resilience to natural disasters, a top priority for many small states. That said, we believe further work is needed to sensitize all stakeholders – both internally and externally – to how the new toolkit could better support building ex ante resilience to natural disasters. Beyond that, we encourage staff to continue to explore ways in which the Fund could utilize its lending toolkit and other resources to help all small states build resilience to natural disasters and other shocks, including through helping to catalyze needed donor funding.

Enhancing flexibility in supporting reform programs: We concur with the proposed extension of the maximum duration of SCF arrangements to three years and removing the sub-limits in the case of precautionary access. We also see merit in extending the maximum initial duration of ECF arrangements to five years, when needed and provided strong program ownership remains in place and due consideration is given to avoiding a reduction in average annual access levels. Longer program will allow the IMF-supported program to better address the macro-structural issues that LICs are facing, especially in areas such as Domestic Resources Mobilization, Social Inclusion as well as Governance. The reform package will also promptly respond to specific challenges faced by fragile and conflict affected states (FCS) and by countries vulnerable to natural disasters and climate change. Further, we can go along with renaming the Economic Development Document (EDD) the Poverty Reduction and Growth Strategy (PRGS). Such a strategy document is necessary for ECF and PSI arrangements given their medium-term nature but unnecessary for short-term facilities. Allowing more flexibility on the timing required to produce the PRGS is a welcome enhancement. At the same time, we would have liked the report to provide more details on the use of the PRGS, especially considering the recent focus on social spending in IMF programs.

The Fund's catalytic role: Maximizing the catalytic role of Fund programs requires adequate donor coordination and appropriate sequencing in reform implementation. We also see merit in increased Board oversight over SMPs.

Other issues: In line with the generalized increase in access, we welcome the clarifications and the related policy adjustments to contain the access threshold trigger. Staff could also consider changes to the threshold trigger for post program monitoring (PPM). Staff comments are welcome.

Financing of Fund's concessional assistance: We note that the proposed package would be generally consistent with the self-sustained PRGT framework, with risks evenly balanced over the coming decade. We note that the CCRT remains significantly underfunded and we look forward to further discussion in the context of the 2020 update paper. Finally, we support the proposal to amend the PRGT instruments to extend the commitment and drawdown periods for concessional lending to end-2024 and end-2029, respectively.

Mr. Kaizuka, Mr. Ozaki and Ms. Mori submitted the following statement:

We thank staff for the papers and outreach to our office. We continue to support low income countries (LICs) as shown by our one of the largest contributions to the loan and subsidy of PRGT. It is important that the LIC facilities are appropriate to support LICs challenges, while self-sustainability of the PRGT financing framework should be maintained. In this regard, we welcome that the proposed reforms are aligned with key staff findings of the Review of Conditionality. We also appreciate that impact and sensitivity analysis to assess the impact of reforms on self-sustainability are provided.

We acknowledge that the proposed reform package strikes an appropriate balance between addressing LICs evolving needs and maintaining self-sustainability of PRGT. Therefore, we support the proposed package of reforms to LIC facilities and changes to the Rapid Financing Instrument (RFI), and extension of the commitment and drawdown periods of the instrument. At the same time, given the rising debt vulnerabilities in many LICs, country tailored approaches taking into account the debt sustainability are needed when applying new higher access limit. In addition, as longer-term outlook is subject to greater uncertainty, we urge staff to remain vigilant to risks and the evolution of capacity and consider contingent measures as necessary.

Access Policies and Financing Terms

We support a generalized increase of one-third in access limits and norms for all concessional facilities to address access erosion associated with the LICs' increase of GDP and trades as it is assessed to be compatible with maintaining the financial sustainability of the PRGT. In the meantime, it is important to pay more attention to debt sustainability as debt vulnerabilities of LICs are rising. In this light, introduction of additional safeguards for high access procedures and exceptional access procedures are welcoming steps. Especially, we welcome the proposal of early informal board requirements which can improve board engagement and enable to incorporate Directors' feedback on program design and access levels.

On the blending policy, we agree with the inclusion of higher-income LICs at high risk of debt distress with substantial market access as it enables to better target scarce PRGT resources to the poorer and more vulnerable LICs and offsets the impact of other reforms to maintain self-sustainability. We also support the case-by-case judgement based on such factors as the evolution of debt vulnerabilities for the assessment of prospective access to market. Having said that, as this change means more high-risk countries are forced to use GRA resources, further careful monitoring for their debt sustainability and repayment capacity are needed to safeguard GRA resources. In this regard, we would like to ask whether any additional safeguard measures or program conditionalities can be considered for these at high risk of debt distress blending countries to prevent further deterioration of their debt situation and safeguard GRA resources.

Supporting LICs in Fragile and Conflict-Affected Situations (FCS)

Although RCF entails risks of repeated-use by countries without enough policy efforts, we can go along with the proposal to double the annual access under the regular window as this proposal comes with some safeguards such as a norm for annual access and per disbursement limit. We especially welcome a link of additional disbursement to a track record of adequate macroeconomic policies through an SMP, which will help fragile states moving toward upper credit tranche program. At the same time, we encourage staff to continue collaboration with other IFIs and donors that have more expertise in supporting FCS.

On the flexible use of the ECF for FCS, we appreciate staff for providing some specific cases. Given the limited capacity and needs to address substantial domestic instability or uncertainties of FCS, the near-term focus approach to have broad objectives for the full program period with detailed statement of the critical policies and measures for the first 12 months at approval and specific policies and measures after the first 12 months will be defined in the context of future reviews is sensible approach as it can meet the FCS's needs without making fundamental change in the structure of facilities. We expect that staff take flexible and tailored approach together with capacity development to strengthen institutional capacity.

Supporting LICs Vulnerable to Natural Disasters

We can support the proposal to raise the RCF cumulative access limit for natural disasters given the increasing frequency and impact of natural disasters. In the meantime, Fund assistance would remain catalytic in light of the large size of the BOP needs following a large natural disaster and cooperation with other IFIs and development partners which have more expertise in this field should be strengthened to effectively address the needs. As the RCF is not upper credit tranche program and has risk of repeated use without enough policy effort, we encourage staff to careful evaluation of needs and monitoring of policy response and close collaboration with other partners are important at that time as well.

Rapid Financing Instrument

We are open to the proposed access limits increase of RFI in line with RCF. We note that the access safeguards proposed for the RCF regular window do not apply to the RFI, which does not have separate "regular" and "exogenous shock" windows. On this point, we would like to hear staff's view on the possibility to create regular window in RFI and introduced safeguards like RCF as RFI is not limited to exogenous shocks and natural disasters and can be used for other fragile situations. Staff comments are welcome.

Enhancing Flexibility in Supporting Reform Programs

We support raising the maximum length of the SCF, removing the sub-limits on the SCF's precautionary access, and harmonizing the SCF interest rate with the ECF. These changes would make it easy to blend arrangement and reduce disincentive to seek precautionary arrangement.

For the five-year ECF arrangement, we acknowledge that there may be circumstances when program success depends critically on longer-term reform effort and support the proposal to extend the maximum initial duration to five years while remaining the presumption of the length to be normally three years. We agree with staff that a well-sequenced reform plan with strong ownership should normally be in place to justify a five-year program.

Financing

Given the endowment-basis financing model of PRGT, preserving self-sustainability of facilities in line with three pillar strategy is crucial. We acknowledge the staff assessment based on impact and sensitivity analysis that the proposed reforms can be accommodated within the self-sustained PRGT with risk evenly balanced over the medium term. However, as staff mentioned, the longer-term outlook is subject to greater uncertainty and the proposed reforms would increase demand, careful monitoring of the capacity and periodic review of policies are warranted to preserve self-sustainability of PRGT facilities.

In this context, we take note that disbursement-based demand measure is introduced to complement the traditional commitments-based measure. While we understand that the disbursement-based model is to calculate more accurate demand reflecting the historical experience, it seems less conservative for future events compared to the traditional commitments-base measure. Also, the risks for self-sustainability might be assessed smaller under the new demand-based model amid the increasing pressure on PRGT resources due to proposed reforms including access increase and enhancement of SCF. Against this background, we encourage staff to monitor demand more carefully and consider necessary policy options and contingency measures if necessary, so that PRGT eligible countries can use PRGT facilities in perpetuity.

Financing Debt Relief

On the options to address the substantial underfunding of CCRT which we agree to discuss in the context of the 2020 update paper, we would like to point out the importance of fair burden-sharing and encourage staff to fully take into consideration of the 6 countries pledged under the 2015 fund-raising campaign should staff pursue the first options of launching a new fund-raising campaign.

Ms. Mahasandana and Ms. Latu submitted the following statement:

We thank staff for the comprehensive set of reports and the outreach to our office. We welcome the review of the Fund's facilities for Low-Income Countries (LICs) to enhance their effectiveness against the backdrop of evolving conditions in LICs. We broadly support the proposed package of reforms to the LIC facilities and the Rapid Financing Instrument (RFI) while maintaining the self-sustained Poverty Reduction and Growth Trust (PRGT) financing framework.

Enhanced targeting of the limited PRGT resources and tailoring of the facilities to the needs of the LICs are key to better serving of members' needs in an evolving landscape. We support the proposed increase in the access norms, annual and cumulative PRGT access limits and likewise, the corresponding adjustments to the Rapid Financing Instrument (RFI). These reforms coupled with the improved flexibility of the Standby Credit Facility (SCF) and Extended Credit Facility (ECF) ensure that the Fund's program engagement continues to be responsive to the specific challenges faced by countries in fragile and conflict affected situations (FCS) and vulnerable to natural disasters. Furthermore, these reforms would enhance the usefulness of the Fund's concessional facilities to LICs and address the erosion of access levels in light of the continued growth in LICs' external financing needs. That said, we underscore the importance of the Fund's ongoing work to assist countries in building resilience to natural disasters and other shocks through its lending toolkit, provision of policy advice and technical assistance, as well as catalyzing donors' grants and concessional financing. We also support the proposed reform of the blending policies to allow better targeting of the PRGT resources to the poorer and more vulnerable LICs.

We welcome the proposed strengthening of safeguards to the LIC facilities. The introduction of a "stock trigger" for high overall exposure of a country to the PRGT, the strengthening of the high access procedures and further informational requirements for Board oversight, are welcome additions in the efforts to mitigate the potential higher credit risk associated with the higher credit exposure and rising debt vulnerabilities. Nevertheless, we suggest careful consideration of balancing the application of the safeguards with ensuring accessibility to meet larger balance of payment needs. The design and conditionality of the Fund programs should also provide realistic safeguards with appropriate tailoring to each country's circumstances.

Proper guidance is necessary to effectively implement the reform package. We suggest the revision of Handbook on LIC facilities incorporates clear and granular steps to ensure the changes are consistently applied and that the guideline is adequately flexible to cater for a variety of circumstances that members may face. The proposed modification to the blending rules should be carefully implemented to strike the right balance between evenhandedness and tailoring to country circumstances. This would help allay any adverse implication on the Fund's reputation. We also view that careful exercising of judgement in implementing the revised blending rule is necessary given these countries' high risk of debt distress. We welcome staff's advice of the intended outreach to the area departments and mission chiefs on this reform package and how it relates to the Fund's other policy reviews in support of LICs, such as the papers on the 2018 Review of Program Design and Conditionality and Building Resilience in Developing Countries Vulnerable to Large Natural Disasters, to ensure they are applied in a coherent manner.

We support the efforts to maintain the self-sustained PRGT financing framework. We take positive note that based on the staff's assessment, the proposed reforms to the PRGT facilities can be accommodated within the self-sustained PRGT with risks evenly balanced over the medium term. With the considerable uncertainties of the longer-term outlook, we agree that the evolution of capacity should be closely monitored through the annual assessment of the adequacy of the PRGT resources. We also suggest ongoing review and update of the stress test scenarios and assumptions to reflect the evolving circumstances and shocks that could affect the LICs. We encourage staff to continue to consider ways to sustain the PRGT resources in line with the three-pillar strategy to retaining the self-sustained PRGT. We look forward to the 2020 Update report to the Board on options for addressing the under-funded Catastrophe Containment and Relief Trust (CCRT).

Mr. Moreno, Mrs. Del Cid-Bonilla and Mr. Montero submitted the following statement:

We thank staff for its timely engagement with the Board during the review process to complete this comprehensive reform package of facilities for LICs and to ensure its consistency with the PRGT self-sustainability financing framework. As stated before, we consider it very important to strengthen the lending toolkit for LICs and fragile states to better customize it to their needs in an increasingly complex environment. We support the proposed reform package (as described in SM/19/100 and its supplements) as well as the related decisions on the financing of the Fund's concessional assistance and debt relief to LICs.

The proposed reform complements the findings and recommendations of the review of program design and conditionality (ROC), recently discussed by the Board. The need to strengthen the focus on debt vulnerabilities, ownership and the quality of fiscal adjustment in program design were key elements of the ROC. A timely implementation of the ROC recommendations is warranted to enhance the effectiveness of Fund's programs in addressing LICs' macroeconomic imbalances and their perspectives for growth and poverty alleviation.

We agree with a generalized increase of one third in access limits for all concessional facilities. This will help to accommodate LICs growing financing needs and avoid access erosion. We also support the strengthening of safeguards against credit risk, by modifying high access (HA) procedures through an additional threshold on projected outstanding credit to PRGT and by reinforcing the timing and informational requirements for informal Board engagement.

We subscribe to the proposed modification to the blending rule. This reform will contribute to better targeting subsidy resources to the poorer and most vulnerable LICs while contributing to a positive impact on the PRGT sustainability. It would also help to mitigate moral hazard concerns that large-scale borrowing on non-concessional terms is de facto rewarded ex-post through greater subsidized resources. The proposal allows for exercising judgment in assessing whether the requirement that the country has prospective market access is met. Evenhandedness in this judgment will be very important. We would like staff to expand on how this will be pursued.

We support the proposal to increase the annual and cumulative access limits under the RCF regular window, for helping LICs affected by fragile and conflict situations. We also agree with the safeguards proposed to ensure that the higher annual access limit does not become the de facto average access level under the regular RCF window and would be linked to a track record of adequate macroeconomic policies.

Regarding a more flexible use of the ECF for FCS we believe that economic plans for FCS emerging from conflict and or facing substantial domestic instability need to focus on near-term objectives. Staff proposes that the current three-year ECF can be used to support a program with streamlined conditionality that focuses on near-term stabilization needs, guided by medium-term objectives. While we can go along with the proposal we still do not see the rationale to use three-year ECF instead of shorter duration programs as, for instance a SCF (provided the unification of interest rates is approved).

We concur with raising the cumulative RCF access limit for disbursements associated with large natural disasters. We, however, insist that the Fund's more important role in these situations is a catalytic one and that it will better serve its most vulnerable members to address climate change by working closely with other international organizations to promote self and market insurance and for building ex ante resilience.

We support the flexibility enhancements to the SCF and ECF, including longer duration, particularly in the case of the SCF to be adequately aligned with the SBA. In the case of the ECF, we consider it is important that five-year programs be granted on a case-by-case basis ensuring a strong ownership, transparency, adequate design and conditionality, and careful monitoring.

We can go along with renaming the Economic Development Document (EDD) to Poverty Reduction and Growth Strategy (PRGS). However, we see more important that countries receiving concessional resources from the PRGT have robust long-term strategies in place. In this regard, we wonder on the usefulness of having the EDD (PRGS) ready until the sixth review, even if only under some circumstances; moreover, it would be contradictory with a five-year ECF that would have as requirement the country's development plan. We would appreciate staff's clarification on this.

We take positive note of the comprehensive analysis of the self-sustainability of PRGT resources over the coming decade. The proposed package of measures is consistent with the third pillar of self-sustainability, as well as with pillar I, a base lending envelope of SDR 1¼ billion per year. However, we share staff's view that the longer-term outlook is subject to greater uncertainty, so a careful monitoring is needed to anticipate the activation of contingent measures to address financing shortfalls under pillar I.

Additionally, we support the proposed decisions to amend the PRGT Instrument to extend the commitment and drawdown periods for concessional lending to end-2024 and end-2029, respectively. On a more technical note, we would like staff to confirm whether the clauses to be amended in the PRGT Instrument (Sections II-1(e) (2) and III-3) are protected clauses or not, i.e., whether the amendment will require further approval by loan contributors once endorsed by the Board.

Finally, regarding the Catastrophe Containment and Relief Trust, its estimated underfunding is substantial, limiting the Fund's ability to assist countries hit by catastrophic disasters. We agree on the need to explore options to address this underfunding in the 2020 Update paper.

Mr. Kaya, Mr. Benk, Mr. Just and Mr. Reininger submitted the following statement:

We thank staff for their comprehensive reports and the early engagement with the Executive Board. The Fund plays an important role in supporting low-income countries in their efforts to achieve sustainable growth and reduce poverty, and this review is an opportunity to further strengthen the current framework. We thank staff for incorporating modifications to the draft proposal in response to the Executive Board's comments at the informal session and support the proposed reform package.

We attach a high premium on reconciling any improvements to the framework with the maintenance of the PRGT's self-sustainability, which is embedded at the core of the three-pillar financing framework. Our support for the reform package rests on staff's expectation that it can be accommodated within the self-sustained PRGT, and no gap will emerge between demand for PRGT resources over the medium term and the PRGT's lending capacity.

Access policies and safeguards: We support the general increase of access limits and norms for PRGT facilities by one-third, as we concur with staff that it is important to view these limits and norms also in relation to economic aggregates and hence adjustments are needed to prevent their erosion. At the same time, we particularly support strengthening the safeguards against credit risk for high access and exceptional access, by adding a "stock trigger" for informal Board meetings as well as stepping-up informational requirements for these meetings and clarifying the rules for the timing of these meetings earlier in the process.

We caution against using blending as a way to make scarce PRGT resources stretch further, as it could impact the GRA's "credit risk". We welcome that the current proposal on blending policy additionally requires substantial market access on a prospective basis as a condition for removing the exclusion from presumed blending for low-income countries above a certain per-capita-income level and at high risk of debt distress. The added requirement of case by case judgement will help ensure that the removal of the exclusion to make available scarce PRGT resources to the poorest and most vulnerable PRGT-eligible members, is carefully considered. While we find staff's analysis plausible that the fiscal costs implied by removing the exclusion would be low for most countries at high risk of debt distress, we would like to emphasize high debt transparency standards, limits on non-concessional borrowing and reasonable prospects for declining debt risks over the course of the program, as important factors to be considered in these case-by-case judgements. Moreover, the case-specific assessment of prospective market access may take into consideration that market access is to some extent contingent on the situation of global capital markets so that any given market access of countries at high risk of debt distress may be impaired rather quickly in a less benign risk-sentiment environment.

Interest rate setting mechanism: We agree with the harmonization of the SCF interest rate with the lower ECF rate, implying zero interest rates for all three PRGT facilities until mid-2021.

Supporting LICs in Fragile and Conflict-Affected Situations (FCS): We support the flexible use of EFC programs for FCS with a stronger focus on near-term imperatives, with the guidance by medium-term objectives, and concur with staff's preference of such an approach rather than establishing a short-term version of the EFC. In the same vein, we see merit in enhancing the flexibility in accessing the regular Rapid Credit Facility (RCF) by doubling the annual access limit (on top of the general increase) to 50 percent of quota while raising the cumulative limit only in line with the general increase. Coupled with the two safeguard measures of introducing both an annual access norm and a limit-per-disbursement both at one-half of the annual access limit, we consider this flexibilization as appropriate to accommodate special needs of this group of countries that account for half of all LICs. However, we would like to stress that enhanced flexibility might not be sufficient for several FCS and their financing needs would have to be addressed by grants to avoid rising indebtedness.

Supporting LICs Vulnerable to Natural Disasters: We also see merit in raising the cumulative limit for the outstanding lending under all RCF windows by one-third (on top of the general increase) to 133.3 percent of quota when a country seeks a disbursement associated with a large natural disaster, considering the rising impact of global climate change. At the same time, we note that the definition of large natural disaster entails a high threshold of 20 percent of GDP and that there is an obvious need for strengthening resilience ex-ante.

We also agree with the modification of access limits of the Rapid Financing Instrument (RFI) being adjusted in parallel to all aforementioned adjustments to the RCF.

Enhancing flexibility in supporting reform programs:
We agree with extending the maximum duration of an SCF arrangement from two to three years and abolishing sub-limits on access for precautionary SCF use.

We also support extending the maximum initial duration of the Extended Credit Facility (ECF) from four to five years. We expect the longer term program to allow for a more realistic timetable for critical and/or far-reaching reforms and thus improve ownership and better anchor the government's program on a medium-term strategy and improve ownership.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank staff for the informative and well-written reports. We welcome the efforts to strengthen the IMF's LIC facilities and improve their efficiency. Overall, the basic architecture of the LIC facilities, established after the 2010 reforms, proved to be broadly appropriate. The IMF concessional facilities, combined with the Fund's policy advice and capacity building efforts contributed significantly to macroeconomic stability, growth and poverty reduction in low-income countries. More than a half of the PRGT-eligible countries have received concessional financial support from the Fund since 2010. The IMF programs have been also essential for catalyzing multilateral and bilateral donor support. Having said that, we agree that growing vulnerabilities and financial needs of LICs, as well as the accumulated experience with the use of LIC facilities, justify amendments to some elements of the LIC financing architecture.

We broadly support the proposed reform package, which responds to the evolving conditions in LICs. We welcome higher levels of access to concessional financing, better conditions for the poorest and most vulnerable PRGT-eligible members, and countries affected by large natural disasters. The proposed measures improve the flexibility of the PRGT facilities, allowing better tailoring program design to specific country circumstances. We also welcome the harmonization of conditions of some facilities, which streamlines the Fund's toolkit and makes it more user-friendly. Especially important is the staff assessment that the changes to the Fund's toolkit do not compromise the self-sustaining model of the PRGT.

We can agree with the proposed overall 33.3 percent increase of access limits and norms for all concessional facilities to compensate for the recent access erosion. It is important that the size of increase not only restores most access metrics to their previous levels but remains compatible with financial self-sustainability of the PRGT. At the same time, we are not in favor of the relaxation of the exceptional access policy, as it will further contribute to the ambiguity in the use of the instruments.

We can support the doubling of the Rapid Credit Facility (RCF) annual access limit under the regular window (on top of the general one-third increase), up to 50 percent of quota. Doubling the annual access would allow greater flexibility in assisting the fragile states, especially in critical situations. At the same time, we agree that it is necessary to introduce safeguards to ensure that such cases are regarded as exceptions rather than the norm.

For the Fund programs associated with large natural disasters, we support the increase of the RCF cumulative assess limit to a level that is one-third higher than the limit applicable to other RCF cases. That will particularly help countries that experience repeated occurrence of natural disasters. We also agree that as a matter of equal treatment for all countries affected by large natural disasters, there is a merit for a similar increase in the annual and cumulative access limits under the Rapid Financing Instrument (RFI) for such cases.

We agree that the scarce concessional resources should be channeled to the poorest and most vulnerable LICs. This goal could be achieved by broadening the circle of the presumed "blenders" under the PRGT. Removal of the blending exclusion for higher-income LICs at a high risk of debt distress provided that they have substantial market access can alleviate the burden on the PRGT, ensuring a self-sustained model of the PRGT. However, we remain concerned about possible increase of debt vulnerabilities of LICs going forward. The proposed safeguards, including the test for prospective access to international financial markets, would require a substantial degree of judgement. It also depends on the quality of public debt data, which is frequently insufficient in LICs. Further work is needed to ensure adequate safeguards against credit risk.

We are not convinced that extending the maximum initial duration of the ECF arrangement from four to five years would substantially improve the effectiveness of the ECF-supported programs. The argument about the need for designing long-term reforms is not consistent with general assumptions that political and economic conditions in LICs are volatile and implementation capacity is weak. It is unrealistic to expect that five-year plans could be consistently implemented without substantial modifications. It is also not consistent with the proposals to increase flexibility of the ECF. Moreover, under the current framework, if needed, three-year EFCs can be extended, or it could be followed by a successor arrangement.

Review of the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Countries. We welcome the staff assessment, which shows that the proposed reforms of the LIC financing are consistent with self-sustainability of the PRGT. The lack of funds in the CCRT should be addressed. We agree that the options to address the CCRT underfunding should be discussed in the context 2020 Update paper. We support the amendments to the PRGT instrument, which extend the commitment and drawdown periods for concessional lending.

Mr. Lopetegui, Mr. Di Tata and Mr. Rojas Ulo submitted the following statement:

We thank staff for this comprehensive review, the outreach before this meeting, and its efforts to incorporate Directors' previous suggestions.

We broadly agree with the staff's proposed package of reforms to the LIC facilities, which seeks to enhance support for LICs while preserving the self-sustainability of the PRGT financing framework. We welcome that the proposed reforms are aligned with the key findings of the Review of Program Design and Conditionality (ROC) and the recent Board paper on "Building Resilience in Countries Vulnerable to Natural Disasters." We have the following specific comments:

Access Norms and Limits – We support the proposed generalized increase of one third in access limits and norms for all concessional facilities to address in part the growing financing needs of low-income countries. This reform restores current access limits in terms of GDP and trade exposure. We notice, however, that the proposed increase would not be enough to bring access limits as a proportion of gross financing needs to the levels achieved after previous increases, especially for "prospective blenders."

Safeguards – We support the proposal to modify high access (HA) procedures by establishing an additional threshold on projected outstanding credit to the PRGT, which would work as a complementary metric justifying closer scrutiny of program requests. We also support the proposal to provide for more timely and better-informed Board engagements for both HA and exceptional access (EA) requests.

Blending – We agree on the need to better target PRGT's scarce concessional resources to the poorest members but, as indicated in the past, we believe that we should be very cautious about removing the blending exclusion automatically for higher-income LICs that have market access but are in high risk of debt distress. In this regard, we welcome the staff's proposal to remove the blending exclusion for this group of countries provided they have substantial market access, including on a prospective basis. This new proposal allows for exercising judgement on a case-by-case basis to determine whether the blending requirement of prospective market access is met. Based on the proposal, judgement on prospective market access will be based on several factors, including, among others, the evolution of debt vulnerabilities in the context of the program DSA and the quality of public debt data. We also agree with staff that specific guidance on the assessment of prospective market access should be included in the Handbook on IMF Facilities for LICs.

Interest Rate Setting Mechanism – We agree on harmonizing the SCF interest rate with the lower ECF interest rate to make Fund financing somewhat more concessional while simplifying the PRGT financing framework. We notice that the revised interest rate mechanism would imply zero interest rates for all three PRGT facilities until the next biennial review in mid-2021.

Support to Countries in Fragile Situations – In addition to the generalized access increase, we support the doubling of the annual RCF access limits under the regular window, which would provide greater flexibility to assist Fragile and Conflict-Affected States (FCS) in emergency circumstances when an Upper Credit Tranche-quality program is not yet feasible. We also agree with the introduction of safeguards to ensure that the new annual access limit does not become the de facto average level of annual access. We welcome the justification provided by staff on the flexibility available in the ECF to customize programs to the specific circumstances of FCS to allow for an initial focus on short-term reforms, while program specifics are fleshed out as the ECF arrangement unfolds. This approach is consistent with the Guidelines on Conditionality and the Staff Guidance Note on the Fund’s Engagement with Countries in Fragile Situations. The cases of Chad, Mali and Yemen discussed in Box 2 are good examples of how a flexible and tailored approach has been used in past ECF arrangements with FCS.

Support for Countries Hit by Natural Disasters – We support the proposal to raise the cumulative RCF access limit for disbursements associated with large natural disasters, including from climate change. We notice that given that the large natural disasters threshold is likely to be met only by small states, the impact on PRGT finances would be small. We welcome that other changes proposed in the LIC facilities will also facilitate Fund support to countries vulnerable to natural disasters and that existing instruments can be tailored to resilience-building strategies. We also agree on applying to the RFI the increases in access limits envisaged for the RCF. This is another way to increase the Fund’s flexibility to support FCS and countries hit by large natural disasters.

Enhancing Flexibility in Supporting Reform Programs – We agree on enhancing the flexibility of both the SCF and the ECF to support tailoring of program design. In this regard, given the time it may take to make progress on longer-term structural reforms, we see merit in extending the maximum initial duration of ECF arrangements from four to five years, maintaining the presumption that the length of such arrangements would normally be three years. We also support extending the maximum duration of SCF arrangements from two to three years, in line with the purpose of the SCF of addressing short-term BoP needs expected to be resolved within “two years but in any case, not more than three years.” We also support removing the sub-limits on SCF’s precautionary access, which act as a disincentive to LICs seeking precautionary support from the Fund.

Strengthening Program Links to Poverty Reduction – We believe that use of the Economic Development Document (EDD) should be continued for ECF and PSI programs because of their medium-term nature and emphasis on poverty reduction objectives. However, in line with the reservations expressed by other Directors, we remain unconvinced that EDDs are necessary for short-term facilities, including SCF arrangements with an initial duration exceeding two years. On a related matter, we welcome the greater flexibility being allowed on the timing required to produce the EDD. We can go along with the proposal to rename the EDD as the Poverty Reduction and Growth Strategy (PRGS).

Other Issues – We support the clarification to the PRGT instrument to explicitly align the market access criterion used for EA purposes with that used in blending. In line with the generalized increase in access, we also support the changes in relevant policies that contain an access threshold trigger.

Resource Implications of Proposed Reforms – We take note that the proposed reform package would be generally consistent with the self-sustained PRGT financing framework as the costs resulting from higher access limits and norms, the lower SCF interest rate, and enhanced flexibility facilities would be partly offset by the modification of the blending exemption. We agree that the evolution of the PRGT's capacity would require careful monitoring given downside risks. At the same time, we notice that the Catastrophe Containment and Relief Trust (CCRT) is currently significantly underfunded, which limits the ability of the Fund to assist countries hit by natural disasters. We encourage staff to explore options to address this issue.

Mr. Meyer and Mr. Braeuer submitted the following statement:

We thank staff for this comprehensive set of reports and their considerable outreach. While we welcome the review of facilities for low-income countries and support some of the proposals (the general increase in access limits, the strengthening of procedural safeguards for high and exceptional access, the extension of the maximum duration of the SCF, and the modifications of the EDD), we still have a number of concerns with other proposals (most notably the increase of blending, the extension of the maximum duration of the EFF and the increase of RFI access limits).

Review of Facilities for Low-Income Countries

We believe that the overall direction of the reform proposals could have focused more on the question of how to raise effectiveness of the Fund's engagement in LICs than on expanding the level and duration of financial assistance and increasing flexibility. Given the increased debt levels of many LICs, we wonder whether increasing debt creating financial assistance, including from the Fund or the PRGT is the best way of financial support for these countries. In our view, the overall direction of the reform proposals is also not in line with the main findings of the Review of Conditionality. The Review of Conditionality has shown that many PRGT-programs have inter alia suffered from a lack in political commitment, repeated accommodation of fiscal slippages, debt projection errors, and lower than anticipated grants. In our view this calls for greater realism regarding the projected returns of debt financed investment projects and a country's ability to repay debt and we are concerned that the overall direction of the reform proposals (in particular the increase in blending and access) does not address this issue.

We are especially concerned by the proposed increase in blending to include countries at high risk of debt distress. As we would expect this group of countries to grow in the future, given current trends in debt levels, the proposed increase of blending constitutes a shift of risks from the PRGT to the GRA that is justified only as a means to refinance the package of proposals. Such a shift of risks also ignores the findings of the 2018 risk report that stated that the risks from the use of fund resources already exceeds the level set by the board as acceptable. We do not consider relaxing the resource constraints of the PRGT a sufficiently strong argument for this shift of risks. The countries in question would also be better served by a PRGT only loan that carries zero interest, given their already high debt vulnerabilities. To finance the increase in access limits, an increase in PRGT resources would therefore have been a preferable solution to the increase in blending.

We take note that the blending proposal has been modified by including a case by case judgement of prospective access to international financial markets. However, while we appreciate this modification, it does not significantly alleviate our concerns. The assessment of prospective market access is only indirectly linked to the future capacity of a country to repay its debt. Also, the large time horizon needed for such an assumption given repayment periods of up to 10 years shows that it will always be burdened with a high degree of uncertainty. Based on the information in the report, the board cannot assess whether this assessment of prospective market access effectively reduces the risks for the GRA. We understand that specific guidance on the assessment of prospective market access will be included in the Handbook on IMF Facilities for LICs, however, we would have expected more detailed information at this stage already to enable the board to assess the requirements are sufficiently robust. We would for example expect that countries that already show high interest rate premiums (for example defined by EMBI-spreads above a certain threshold) would not be assessed to have prospective market access. A conservative threshold would also help with the moral hazard risk. Staffs comments on guidelines for the assessment of prospective market access would be welcome. We would further appreciate staff's comment whether the MAC DSA framework could be applied to countries with substantial market access and how a country assessed to be in high risk of debt distress under the LIC-DSF framework can at the same time be assessed to have sustainable debt?

It is inconsistent to burden countries with high risk of debt distress with additional debt service obligations from blended programs as the Fund generally recommends to these countries to avoid non-concessional debt and finance only through highly concessional loans and grants. Furthermore, a significant financing by the fund as preferred creditor could lead to a retreat of non-preferred private creditors, threatening the catalytical role of the fund. Staff's comment would be welcome. We would also appreciate, if staff could comment on how financial support from MDBs to LICs is evolving in relation to Fund support.

In any case, we want to stress that for any program with blended financing all GRA rules regarding preconditions, conditionality, program design, and objectives have to apply. We also want to stress that the GRA is a preferred creditor and repayment of the GRA should have priority over repayment of the PRGT. Staffs comment would be welcome.

We are still not fully convinced that lengthening the maximum duration of EFFs to five years will ensure more successful programs. We would see more justification for this extension, if this would tackle the problem of repeated use of fund programs. Does staff expect the lengthening of the maximum to result in a reduction of repeated use of Fund programs? Could this be achieved by shifting objectives of a 5 year EFF towards actually achieving macroeconomic stability over the course of a program? Also, the report states that to justify a five year program, a well-sequenced reform plan should "normally" be in place. Could staff elaborate under which circumstances there could be an exemption from this requirement?

We are very critical of the proposed increase of access limits for the RFI, as this proposal would significantly increase unconditional access to GRA-resources, thereby further increasing risks to Fund resources without adequate safeguards and we are not convinced that there is a need for this increase. The fact that RCF and RFI access limits have been raised simultaneously on past occasions does not in itself justify an increase in RFI access limits.

We still have reservations against the doubling of the annual RCF access limit under the regular window, as the Fund should not be a lead source of financing in situations where a country does not have the capacity to implement UCT-quality economic programs and rather needs grants.

Review of the Financing of the Fund's Concessional Assistance and Debt Relief to Low Income Member countries

We consent to the proposed decision 2. We also agree that options for addressing the underfunding of the CCRT should be discussed in the 2020 Update paper. However, we are concerned about of the effects of the proposed reforms of the LIC facilities on the self-sustainability of the PRGT. We take note, that the reform package is only financed by the shift of potential PRGT use to the GRA. Also, as staff rightly points out, there is considerable uncertainty in the projection of future use of the PRGT depending on countries' long-term developments as well as global factors. Geopolitical developments, natural disasters and climate change could all substantially affect demand for PRGT lending. Against this background we would appreciate additional comments by staff on the level of risk that the proposed reforms would affect the self-sustainability of the PRGT.

The Acting Chair (Mr. Furusawa) made the following statement:

We will discuss an interconnected set of papers relating to the Fund's facilities for low-income countries (LICs). These include a package of proposals for reform of selected features of the Fund's concessional facilities, a review of the financing of the Fund's concessional assistance, and a review of the structure of interest rates for the Fund's concessional facilities, which we will take up in the next session. In addition, next Wednesday, we will discuss the issue of eligibility to use the Fund's concessional facilities. All these topics are closely related.

It may be useful to record the chronology of the evolution of this 2018-19 LIC facilities review. It is quite a long journey. Staff engagement with the Board began with an informal-to-engage meeting in November 2017. The first formal Board discussion of the review occurred last July. A second informal-to-engage meeting was held in mid-March, focused on a discussion of a concrete reform proposal that the staff had circulated. Today we reach the final stage of the review, with a formal discussion of the proposed package of reforms.

I very much appreciate the hard work of the staff and Directors' cooperation and input during the whole process.

The reform proposals constitute an integrated package. Some elements will be implemented through the proposed decisions and others through the Summing Up.

The financing implications of the package are analyzed in detail in the paper on the review of the financing of the Fund's concessional assistance. The package has been designed in a manner intended to preserve the financial self-sustainability of the Poverty Reduction and Growth Trust (PRGT).

The staff has also circulated answers to the questions posed in Directors' gray statements. Before opening the floor for discussion, I will call on staff to address some of the broader themes that features in the gray statements of Directors.

The Deputy Director of Strategy, Policy, and Review Department (Mr. Nolan), in response to questions and comments from Executive Directors, made the following statement:[1]

Let me flag a few new features and respond to some of the bigger themes that were raised in gray statements.

First, on the new features of the proposal, there are only two significant changes from the March proposal that we discussed. One is the modification of the blending proposal to link the imposition of presumed lending more closely to capital market access, both backward-looking and prospective. The second is the addition of reforms to the Rapid Financing Instrument (RFI) to align with the reforms to the Rapid Credit Facility (RCF). Both of these changes have been introduced in response to suggestions from Directors during the March discussions. The details on them are laid out in the staff paper and I therefore will not go through them again here; I will of course respond to any questions that Directors would wish to discuss further.

I wanted to pick up and respond to Directors on a number of themes that featured in their grays. The first one is the emphasis many Directors placed on the importance of next steps. I am going to quote randomly from a few gray statements.

One quote is, "reform of facilities must be accompanied by implementation of program design improvements called for in the Review of Conditionality, including stronger attention to growth orientation of programs, debt transparency and sustainability, and governance and anti-corruption."

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

A second on these lines was, “to deliver on this outcome it will be important to put in place a strong implementation plan supported by appropriate guidance.”

And the third example in this regard: “the forthcoming changes to the Handbook on LIC Facilities will need to be wide in scope and granular in focus while ensuring increased flexibility to deal with unforeseen vulnerabilities.”

All I will say to these points is that we hear the Board very clearly. This will be a major work agenda in the months ahead.

A second theme that a number of Directors emphasized in the context of countries dealing with disaster risk was to underscore the desirability of extra efforts to raise the sensitivity of both borrowers and lenders to the issue of how to focus on building ex ante resilience to natural disasters. This is a message that we hear clearly and agree with. I hope we have gone some way in that direction with the May 1 Board discussion on building resilience to disaster risks, and we will follow up with further work as we go ahead.

Some Directors have also noted that they would like to see more analysis of the use of the poverty reduction and growth strategy to determine how well it was working. Against the backdrop of the increased emphasis that has been given to social spending and the past discussion of the role of the indicative targets on social spending in PRGT programs, this is an area that indeed warrants attention and we will be taking it forward in our work program.

It may be useful to pick up on a few small points that Directors made that I believe are based on some misunderstandings.

A few Directors were concerned about modifying the exceptional access criteria. When one looks at the fine print, this is a very minor tweak. Originally, when we discussed the reform with the Board last summer, two proposals were on the table. One was to keep the cumulative access limit constant and to substantially expand the use of exceptional access. The second was to increase all the limits together and leave exceptional access basically unchanged. There was no support for the first proposal last July in the formal Board meeting, so we went with the second proposal. All that is being corrected here is a small anomaly in the existing framework; the impact of the change on Fund lending activities, if any, should be trivial.

A number of Directors expressed concerns about the role of the “stock of debt” trigger and the introduction of an additional requirement for Board consultation in situations where projected access exceeds a stated threshold. Directors were concerned that this might pose obstacles to providing programs with large access. I want to stress that the purpose of this stock of debt trigger and the ensuing Board consultation is simply to intensify the scrutiny of programs both by staff and by the Board. When the Board scrutinizes a program more carefully, the staff scrutinizes it even more carefully. The aim is not to prevent large access programs; it is to ensure that they are subject to closer scrutiny, given the substantial exposure of the Fund.

A number of Directors expressed concern about the role of the per disbursement limit on use of the regular window of the Rapid Credit Facility (RCF)—the 25 percent limit, where there would now be a 50 percent annual limit. There is a sentiment among many Directors that undue reliance on the RCF or the RFI can be problematic, given the lack of ex post conditionality. We viewed this as a compromise that tries to accommodate the concerns of both sides.

The Deputy Director of the Finance Department (Mr. Mumssen), in response to questions and comments from Executive Directors, made the following statement:

Let me start by thanking Directors for the constructive engagement we have had over the last year and also for discussing the financing aspect of the PRGT. I know it is a complicated subject. In fact, this process was helpful for us also in terms of clarifying some of the questions around it.

Following the July Board meeting, we undertook a thorough review of the financing framework, which included not only the usual data updates but also refinements to the methodology, both in terms of our demand model and our supply model. That was done to better reflect the historical experience with the PRGT operations since they were designed in the current way in 2009.

Just to reiterate the key point that is in the companion paper, which is that our assessment of PRGT financing is essentially what we already communicated in the March informal Board meeting. There are three key points.

First, as of today, the financing framework has remained intact, with the self-sustained annual lending capacity currently at SDR 1.31 billion.

Second, the proposed package of reforms can be accommodated within the self-sustained PRGT. We see the risks evenly balanced over the medium term. There are three subpoints on this. As we tried to explain in terms of questions, how it all adds up, a key point here is that the proposed access increase of one-third was, in fact, calibrated to use the available room in the PRGT, taking into account the other changes that we are proposing to the way the facilities work. Second, under plausible demand scenarios, we believe that the PRGT's self-sustained capacity should remain reasonably close to the target of SDR 1.25 billion over the next decade. I would like to stress again that this assessment that the package is consistent with the self-sustained PRGT is based on a range of assumptions and projections. That includes the application of the PRGT graduation framework that we will be discussing on Wednesday.

Having said that, the other important point that many Directors have raised in their gray statements is that the evolution of the PRGT's financing capacity needs to be carefully monitored going forward. Short-term fluctuations are normal, and they can be accommodated under the framework. However, we also need to be aware that longer-term trends are quite uncertain. There are downsides both on the supply side and on the demand side.

To monitor, we have the annual updates of the PRGT financing, so we will be back next April with an update.

Under the three-pillar framework, there are a range of policy options and contingency measures we can use that can then be explored and considered by the Board once we have identified a potential disequilibrium.

Finally, the next facilities review, which normally will take place in five years, is an opportunity to review the entire facility structure and make any adjustments to the lending framework to ensure that it remains consistent with the base envelope and the three-pillar system.

Mr. Raghani made the following statement:

We thank the staff for putting together a sensible package of reforms to adapt Fund's facilities for LICs. We appreciate their outreach throughout the review. We have issued an extensive joint gray statement with 10 other chairs. Therefore, besides expressing our broad support to the proposed reform, I wish to limit my intervention to a few points.

First, the proposed general increase in access limits and norms is a step in the right direction, and we support it. However, as highlighted in our joint gray statement, a one-third increase may not be enough to resolve the access erosion. Future reviews should look at all elements of the PRGT architecture, including its size, to ensure the adequacy of Fund's capacity to respond to the balance of payments needs of the poorest and most vulnerable members, including in extreme case scenarios.

Second, we find appropriate the extension of blending to all higher-income LICs having substantial market access. We appreciate the staff's explanation that an assessment of prospective market access would be based on a careful examination of various specific indicators and factors and that guidance will be included in the handbook of LIC facilities.

Third, regarding support to countries in fragile situations and countries vulnerable to natural disasters, we are reassured by the staff's clarification that there is no per disbursement limit in cases of exogenous shocks and natural disasters. Greater efforts are needed to support the building of ex ante resilience in these countries.

Fourth, while the reforms are meaningful, implementation is of the essence. We look forward to appropriate granularity in the revised Handbook of LIC facilities to capture the nuance and wide heterogeneity of circumstances. We welcome the plan to conduct an extensive outreach to area departments and mission chiefs. Furthermore, as emphasized by Mr. Rosen, Ms. Pollard, and Ms. Crane, achieving effective Fund assistance to LICs requires that the reformed facilities be complemented by greater attention to a program's growth objectives, good borrowing and lending practices, and governance. We also stress the importance of a greater focus on domestic revenue mobilization, as highlighted in our joint gray statement.

Finally, we expect the 2020 update paper to address the underfunding of the Catastrophe Containment Relief Trust (CCRT) and that efforts are made to mobilize resources to finance Somalia and Sudan's participation in the Heavily Indebted Poor Countries (HIPC) initiative.

Mr. Rosen made the following statement:

We thank the staff for these reports and discussions ahead of this meeting. Fund financing can play a critical role in supporting LICs, especially when it is combined with technical assistance (TA) and effective policy advice. This is a set of proposals that brings together different points of view.

While we were initially concerned about a large across-the-board access increase—we favored a more tailored approach and were uncomfortable allowing high debt risk countries to blend General Resources Account (GRA) and (PRGT) resources—this is a compromise proposal that we can support.

The adjustment to the blending rule, to allow for case-by-case judgment, is important. We appreciate that blending helps conserve concessional resources for the poorest countries. In addition, the staff's analysis of PRGT self-sustainability gives us confidence in the access increase.

We have been pleased to see reforms to the Standby Credit Facility (SCF), to put it on a more equal footing with the Extended Credit Facility (ECF). We hope that over time, more LICs will find this facility useful, either for actual or precautionary balance of payment needs. We welcome the attention to meeting the challenges of fragile states. Allowing the RCF to provide two tranches during a year, with links to a Staff-Monitored Program (SMP), is a pragmatic approach that we support.

We strongly support the proposal to strengthen the program's links to poverty reduction. Fund financing is there to help countries create the stability they need to grow and improve the well-being of their citizens. Poverty reduction and growth strategies should be required for programs over two years and perhaps even more generally. If fragile states require flexibility on the timeline, we encourage the staff to work with other development partners to provide support to the countries to complete the strategy. I am glad to hear what staff has said on this topic this morning.

Finally, we would stress that these revised facilities will only work as part of a well-designed Fund program. It will be important that the outcome of this review integrates lessons from the conditionality review, particularly the growth orientation of the programs, including growing the private sector, debt transparency and debt sustainability, and program conditions to tackle corruption and improve governance. I am encouraged by what the staff has said this morning also in that regard.

Mr. Ostros made the following statement:

We thank the staff for a very good set of reports and for the process, in itself.

I have a similar approach as Mr. Rosen. We have had some concerns during this journey together. But the staff has credibly straightened out some of our question marks, so we are ready to support the package. We see it really as a package and quite a strong reform package.

I also believe that the Fund has an important role to play for LICs, not least also combined with capacity development.

I would like to underscore that program design and implementation should duly take into account the lessons from the Review of Conditionality in order to improve program success. In addition, let me make a few points for emphasis.

First, the severe debt challenges faced by many LICs are concerning. Here, we would like to stress the importance of realistic debt sustainability assessments of potential LIC borrowers and a strict application of the recently updated LIC Debt Sustainability Framework. In addition, sufficient access to concessional resources is critical. Broad support from other institutions in the international community should remain a key source of financing underlying the catalytic role of the Fund. The catalytic role is particularly important in countries hit by natural disasters. While supporting the increase in access levels to the RCF, we continue to believe that grants should be the primary source of funding in a crisis context. Thus, we are skeptical of the idea of developing the precautionary SCF into an insurance instrument against natural disasters.

Second, preserving the self-sustainability of the PRGT financing framework is of the utmost importance. We welcome the staff's proposed reform package and their assessment that it is consistent with maintaining the self-sustainability of the PRGT financing framework. Here, we align ourselves with the statement from Ms. Levonian on the need to continue to closely monitor how the PRGT self-sustainability evolves over time. I take comfort from the staff's brief comments on that this morning.

Third, in the last discussion in the Board on this reform, the proposal on adjusting the blending criteria received more attention than other proposals. We accept the proposal on blending, as it supports targeting scarce concessional resources to the poorest and most vulnerable LICs and is a crucial part of the reform package to ensure a self-sustained PRGT. However, as Mr. Rosen noted in his gray statement, we emphasize the importance of the staff's candid judgments and strong Board oversight when lending to countries at high risk of debt distress.

Regarding the extension of the maximum duration of ECF arrangements, we acknowledge that under some circumstances, a longer arrangement could increase the likelihood of effective program implementation. However, longer programs would increase political risks to program success and could increase the risk for a mismatch between program conditionality and developments on the ground, with potential repercussions for successful program implementation. That being said, we are supportive of the package as a whole and thank the staff for the very good work.

Mr. Mahlinza made the following statement:

I thank the staff for their dedication and hard work on this review and for their engagement with our office.

We have issued a joint statement with several other Directors, wherein we expressed broad support for the proposed package of reform proposals. We would like to highlight two or three points.

First, while we support the generalized increase in access and we understand the need to maintain the self-sustainability of the PRGT, we are concerned that the proposed increase in access does not meet the gross financing needs of LICs. In this regard, we would like to emphasize that, going forward, to the extent possible, interim adjustments to access should occur as warranted. In this respect, we are comforted by the staff's comments this morning. Furthermore, despite the generalized increase in access, we note that there is still a gap in the financing needs of LIC members. This raises questions about the adequacy of the PRGT and whether, at an operational level, the Fund should encourage countries to blend, to the extent that they meet the criteria, as clarified in the 2016 paper.

My second point relates to an issue raised in the paper on the Review of Conditionality, wherein an assessment of the effectiveness of PRGT programs in addressing debt vulnerabilities was made. The paper concluded that, in contrast to the broader LIC trends, debt sustainability risks in countries implementing Fund programs were well contained at a low or moderate risk of debt distress and even improved in three-quarters of the cases. Our view is that this positive message on program success should not be watered down by excessive safeguards. As we mentioned in our gray statement, additional safeguards should only apply as needed and not unduly restrict access and deter the use of Fund facilities.

On the review of the financing of the Fund's concessional assistance and debt relief to LICs paper, we want to thank the staff for highlighting the additional resource requirements for the Sudan and Somalia to address debt relief under the HIPC initiative. We would like to request the Board's support for the proposed fundraising campaign to clear arrears once these two countries are ready to move forward. In this respect, we look forward to discussing the underfunding of the CCRT in the context of the 2020 update paper.

Finally, we welcome the staff's explanations that there will be extensive outreach to area departments and mission chiefs on the implementation of the reforms. We also hope that the update of the LIC facilities handbook will be wide in scope, allowing for flexibility and granularity, taking into consideration all the nuances expressed by Directors to improve the effectiveness of the Fund's lending to LICs.

Mr. Mojarrad made the following statement:

We thank the staff for the well-written set of papers and dedicated work and outreach to our office.

We signed onto a comprehensive gray statement, issued together with 10 other chairs, cutting across the membership, that demonstrates broad support for the staff proposals. I would like to make a few points for emphasis.

The Fund's concessional facilities have been instrumental in supporting the economic adjustment and reform efforts of its low-income members. In particular, in an environment of rising debt, PRGT support programs help contain debt sustainability risks at low or moderate levels. However, the PRGT resources are limited, and access norms and limits are being eroded. As the staff's analysis shows, the erosion is projected to resume almost immediately after the proposed one-third increase, which is clearly not enough. This is a cause for concern. The LIC demand for Fund concessional resources is expected to remain robust, as the countries strive to meet their SDGs in an environment of slowing global growth, trade conflicts, declining donor aid, and the rising frequency of external shocks from wide commodity price swings, conflicts, and climate change. As such, going forward, we would like to stress the need for future reviews to assign a correspondingly large weight to the adequacy of the PRGT resource envelope.

The fragile and conflict-affected states (FCS) deserve particular attention. We were glad to see the staff's proposals to intensify the Fund's response to these countries' unique challenges and financing requirements by doubling the annual RCF access limits. However, we have some reservations on the proposed per disbursement limit, as it could hamper the intended rapid response to emergencies.

Natural disasters mostly related to climate change are occurring with more frequency and greater ferocity, without discriminating across country or income group. LICs, in general, and small states and small island nations, in particular, have borne more than their share of infrastructure destruction and economic dislocation in recent years. The reform proposal that includes raising the RCF and RFI access limits, with an additional increase for natural disasters in case of the latter, and enhanced flexibility for the SCF and ECF, are important refinements to ensure adequate access to the Fund's concessional windows by members affected by natural disasters.

Beyond that, finding ways to use the Fund's lending toolkits and help in catalyzing international donor support to assist countries build ex ante resilience to natural disasters and other shocks merits serious staff attention.

On the financing of the Fund's concessional assistance, the significant underfunding of the CCRT needs to be addressed. We look forward to further discussions on this important issue in the context of the 2020 update paper.

Finally, we welcome the proposed harmonization of interest rate structure of PRGT facilities until the next review in 2021. That would simplify the framework and make financing slightly more concessional.

Mr. Meyer made the following statement:

We thank the staff for the documents and for the whole process and all the outreach done. This was a very good process. Obviously, this is a very important topic. We see the debt developments. We see the SDGs that we want to achieve. We see the global context. We see the difficulties with fragile states. And we see the increased number of natural disasters. Clearly, we need to get it right and take steps in the right direction.

On our side, we support a number of the elements of this package. Let me mention the general increase in access limits, the strengthening of procedural safeguards, the extension of the maximum duration of the SCF, and the modification of the Economic Development Document (EDD).

At the same time, we have clear concerns with at least two elements. The firs one is the increased access limits to the RFI, and the second is the proposed change to our blending rules. Let me state here that, as a consequence, this chair wants to be recorded as abstaining. Let me explain that with the case of the blending, and let me make a quick thought experiment.

If colleagues imagined a situation in which PRGT resources were not scarce, would anyone propose that LICs with a high risk of debt distress should do the blending that is now proposed? Probably not. This, to us, is the main point. We come to the conclusion that there is a better way forward. Let us increase PRGT resources. This chair would support a way forward, to which the staff alluded, to be vigilant moving into the next review in five years. We would be very supportive of looking into increasing PRGT resources through subsidies and loans, as necessary.

We appreciate and understand that the staff wants to be careful going forward, especially with those blending cases. As Mr. Rosen has put it, this case-by-case approach is an important step in the right direction that we support. It will be important to get it right in the handbook, this shows that we are careful.

I will add two more elements.

In general, we need to be careful looking at high debt; that we get it right between PRGT resources being concessional and GRA resources, where the interest rate is higher, looking at the debt. It is understood that it is not easy. If the alternative is going to the markets, where the interest rate is even higher, then that is not a good development. But that is one point. Really look at high debt.

The other one is, if we are using GRA resources, that means full upper-credit tranche (UCT) conditionality. On those two aspects, this chair would highly appreciate it if those ones could also be mentioned very clearly in the Summing Up.

To conclude, we thank the staff for the work. We believe that we have a broader topic probably. As others stated, we believe that the conditionality review and bringing together TA programs in surveillance might be more important than those elements that we are discussing today. We thank the staff for all the work. Hopefully, going forward, the full package will be positive and will make us move in the right direction.

Mr. Geadah made the following statement:

As we mentioned in the joint gray statement, we welcome the increase in access. However, as also mentioned by Mr. Raghani and Mr. Mahlinza, this adjustment may still be below the increased level of members' financing needs, which leads to the issue of the size of the PRGT. I would favor looking into the appropriate size in future reviews, though not exactly for the reason mentioned by Mr. Meyer, but this is something that we ought to look at.

On blending, we thank the staff for answering our question on how case-by-case judgments would be applied and how such decisions would be informed. We look forward to the guidance that will be included in the revised handbook. It will be important for the staff to apply judgment with caution, in a way that is consistent, transparent, and evenhanded.

Finally, like Mr. Raghani and Mr. Mahlinza, we hope that efforts will be made to mobilize resources to finance Somalia and Sudan's prospective participation in the HIPC initiative.

Mr. Benk made the following statement:

We thank the staff for this report and the early engagement with the Board. We issued a gray statement. I will provide a few comments for emphasis.

We support the proposed package. Our support rests on the staff's analysis and elaboration that the package, as a whole, can be accommodated within the self-sustained PRGT. We underscore the importance of maintaining the PRGT's self-sustainability. In this regard, we believe that this package is a good compromise, as it balances carefully the need to prevent the erosion of the access limits, the need to provide assistance in a more flexible way, and the expectation to remain within a constrained envelope. That being said, and given this more flexible framework, safeguards become even more important. We particularly welcome the strengthening of the safeguards against credit risk for high access and exceptional access.

Finally, we also supported extending the maximum initial duration of the ECF to five years. Our support rests on our expectation that a longer-term program would allow for a more realistic timetable for critical and far-reaching reforms and, thus, improve ownership and better anchor the governance program on a medium-term strategy.

Mr. Johnston made the following statement:

I thank Mr. Nolan and his team for what has been a very good and constructive process, where the staff have been prepared to listen to concerns and suggestions and take them into account. That has resulted in a good balanced package of measures that has made some compromises, certainly, but is all the better for it.

Like other Directors, we support the across-the-board one-third increase in access limits and norms. There is no way to prevent erosion of norms and limits over time. The answer is simply to have regular increases like this, so I am glad we have done that in this review.

I do not want to go through the whole package. But there is one thing this chair would like to highlight, which is the extra increase in the cumulative access limit for the RCF in the case of natural disasters. It is something this chair has been requesting for quite some time. Frankly, I have gotten sick of hearing myself talk about it, which is a sentiment probably shared by others around the Board table. I am grateful this proposal has made it into the package and that Directors have supported it. Thank you all.

It is a sensible reform because, in the Pacific and Caribbean and other parts of the world, it is quite possible for a country to be hit twice by a large natural disaster within the space of a few years. It makes sense to increase the difference between the annual and cumulative access limits for the RCF, which previously have been quite skinny. I do not know whether or to what extent that extra borrowing room would be used, but the option to do so certainly has value to some of the countries in our constituency, like Vanuatu and Samoa, which are frequently hit by severe storms.

When anyone from our office goes on mission to those countries, the authorities always want to do an exercise. It is part of their disaster financing strategy. They want to do an exercise to see how much they could borrow from the Fund, if they really had to. They do not particularly want to, but it is one of the options. It always comes back to the fact that since they borrowed a few years ago, they do not have a lot of room. It is hard to say: "Well, I am sorry. You borrowed from the RCF and the RFI back in 2015 or 2014, so actually, there is no room for to you do anything else if you got hit by a big disaster for quite a few years."

We also welcome the corresponding increase in the annual and cumulative access thresholds for the RFI as well. That maintains an even treatment of PRGT and non-PRGT countries, but it also prevents some odd circumstances for countries which have to blend PRGT and GRA resources in the event of a natural disaster.

Mr. Saraiva made the following statement:

I thank the staff for the set of papers and the work that has led to this package that we have discussed today. We cosigned a comprehensive gray statement with 10 other chairs. We are generally pleased with the reforms. They help the Fund to better serve an important part of its membership.

I would highlight the increase in access limits but also the improvement in the FCL to make it more attractive, the possibility of an extended period for ECF, and also the extra limits on RCF. I would also like to fully endorse what Mr. Johnston has just said in this respect.

Regarding access limits, I agree with Mr. Raghani, Mr. Mahlinza, Mr. Geadah, and others. I acknowledge that this is a step in the right direction but maybe not necessarily as far as would be needed to fully meet the needs of this part of the membership. An important point is for us to remain extremely vigilant to avoid the erosion of these norms and limits going forward.

In order to make it effective, it is important to properly implement the recent decisions regarding the tailoring and streamlining of conditionalities, as well as an adequate sequencing in programs, including mitigating measures when we have structural reforms that have substantial negative impacts. We are talking about the effectiveness of Fund engagement in countries that are sometimes in a situation of fragility. Overall, those aspects are key to a program's success.

I also want to stress the importance of clarifying and ensuring that the staff effectively use the flexibility offered for an RCF arrangement to accompany an SMP when a country in a fragile situation is trying to build a track record toward an ECF. Signaling may be much weaker if there is no skin in the game by the Fund.

Finally, I want to touch on the issue raised by Mr. Meyer. This is a really important point that we need to cope with moving forward. We may be facing a situation in which the overall resources of the PRGT are constraining effective support by the Fund to the countries that need access to PRGT. That may be affecting some policy decisions that we are taking, including maybe an untimely graduation of some countries that may still need access to PRGT, as we are going to discuss next week, but also in terms of some of the policy aspects of the use of those resources.

Ms. Del Cid-Bonilla made the following statement:

We thank the staff for its timely and constructive engagement with the Board during the review process to complete this concrete reform package of facilities for LICs and to ensure its consistency with the PRGT self-sustainability financing framework. As expressed in our gray statement, we support the proposed reform, as well as the related decision on the financing and will only emphasize two points.

First, this reform will be seen as part of a more comprehensive package that includes other initiatives, such as: the strengthening of the LIC debt sustainability assessment; the Review of Program Design and Conditionality, recently discussed by the Board; the review of the Debt Limits Policy, the discussion of which is still ongoing. The recommendation of strengthening the focus on debt vulnerabilities in program design and conditionality requires the enhancement debt transparency and disclosure enhancement. Ownership and the quality of fiscal adjustment, as well as proper tailoring, according to a country's circumstances and capacity, are also important elements for this enhanced lending toolkit for LICs to have the expected results. It is also essential to consider TA as an integral part of these reforms.

Second, on the financing, we thank the staff for the comprehensive analysis of the self-sustainability of PRGT resources over the coming decade. The proposed package of measures is consistent with the third pillar of self-sustainability, as well as with Pillar I. However, we share the staff's views that the longer-term outlook is subject to greater uncertainty. Careful monitoring is needed to anticipate the activation of contingent measures to address financing shortfalls under Pillar I. In this regard, does the staff consider that the annual update is enough for this close and careful monitoring?

Finally, we join other Directors on the need for a comprehensive review to determine if the PRGT resources are enough to address the increasing needs of the LICs, especially taking into consideration that now they have to work toward the SDGs and because there are other vulnerabilities and downside risks in the global environment.

Mr. Inderbinen made the following statement:

We thank the staff for the documents, the outreach, and also for the introductory remarks that we found helpful this morning.

In our gray statement, we underline the importance for the PRGT financing framework to remain transparent, rules-based, and self-sustained. We do take note of the staff's assessment that the reforms proposed in this package are generally consistent with the self-sustained PRGT financing framework.

Given the great uncertainty and the downside risks and the projected evolution of the PRGT self-sustained capacity in the longer term, the staff must carefully monitor the evolution of capacity over time. We take comfort in the remarks by Mr. Mumssen that that will be the case in the annual reviews. One element that should continue to be included in this review cycle is the status of pledges of donor countries to the trust, in particular, to the bilateral subsidy resources of the PRGT.

We see many merits and many aspects of the reform proposals—including the generalized increase in the norms and limits and also the doubling of the annual RCF limits—that apply to many of us around the table, and also the increased flexibility and ability to better tailor programs to contexts of fragile states. All this will help improve the effectiveness of the Fund's engagement with the LICs in the membership.

There are two aspects of the reform package that we are less happy with. One relates to the longer ECF and SCF arrangements. We would have believed that the current framework could already accommodate prolonged engagements with LICs. Also, we do not see much value in loosening the constraints on the use of precautionary or short-term support for the SCF, as we mention in our gray statement.

Second, we remain skeptical and share the concerns mentioned by Mr. Meyer and Mr. Rosen on the blending policy to allow financing when the risk of debt distress is classified as high. We believe that allowing countries with high access of debt distress to access GRA resources does create significant risks also to the GRA resources.

Finally, on the high access cases, we stress the need—and this could have been elaborated a bit more explicitly in the documentation—to safeguard stronger overall conditionality when access is high. This is one of the important safeguards that the Fund has. When reviewing the handbook, this will be an important element to retain.

With that, I thank the staff for the work and also for the outreach. We support the reform package as a whole.

Ms. Levonian made the following statement:

Since we indicated our support for the package, I would like to only focus on three points.

First, I want to commend the staff for their extensive consultations in the lead-up to the Board meeting. It truly was exemplary. This has helped to shape the package of measures that balances the evolving challenges facing LICs with the need to preserve the PRGT's self-sustaining model.

Second, with respect to implementation, having the right tools is one thing, but whether we make the best use of them will require additional effort. The staff has acknowledged that.

With that in mind, I would emphasize the importance of communication, both internally and externally. We need to raise awareness to ensure that all options are considered when it comes to deciding how a member engages with the Fund. For the staff, that means guidance on how to apply appropriate judgment when using the additional flexibility, as introduced by some of the reforms. For authorities, this means outreach so that they better understand the potential. In a way, this could help address some of the stigma in regions where this remains a challenge.

Third, although we did not make this point explicitly in our gray statement, I wanted to clarify that we view the revised blending policy as both appropriate and necessary to help the whole package of reforms hold together. That being said, we would emphasize that program design and conditionality for countries at high risk of debt distress remains the primary way in which Fund programs can support sustainability. The design of conditionality for countries at high risk is really where that emphasis lies.

Ms. Riach made the following statement:

Let me start by joining others in thanking the staff for the huge amount of work that has gone into these papers, including the significant outreach and a real willingness to take onboard the comments expressed in previous Board discussions.

We fully support the package of reforms. We support the objectives of increasing access to concessional financing and providing more flexible support for LICs. We welcome the fact that, taken as a whole, the package is consistent with maintaining the self-sustainability of the PRGT financing framework.

We signed a joint gray statement with 10 other Directors, so I can keep my remarks short. I want to focus on three points.

First, I welcome Mr. Nolan's remarks about the importance of implementation and the fact that he heard the comments expressed in some of the gray statements on this point. This package of reforms represents using the existing toolkit in novel ways. A conscious decision was taken not to create new facilities but, rather, to better use what we have. But if that is going to be effective, we do need a concerted and sustained effort on implementation. This is particularly important for implementation in fragile states. I wanted to hear if perhaps the interdepartmental committee on fragile states might be one forum for taking forward that work.

Second, like Mr. Mojarrad, we paused on the per disbursement limit in the RCF, but actually, the staff's responses to technical questions were reassuring on this, particularly the explanation that no limit would be applied in cases of exogenous shocks, including economic shocks and natural disasters. This is an important point.

Linked to that, we welcome the proposal that annual disbursements in excess of 25 percent of quota will be linked to SMPs. In this circumstance, we would like to see greater Board oversight of the SMPs.

Finally, I support Mr. Mahlinza and others on the request to support the fundraising effort for Somalia.

Mr. Bellocq made the following statement:

First, I thank the staff for the reform package proposal, as well as for the outreach that has been done since the beginning of the review. We have cosigned a joint gray, bringing together 11 Directors and supporting the reform package. I will focus on three main points.

First, we believe that the reform package will increase the effectiveness of Fund-supported programs in LICs, notably through delivering more growth-friendly fiscal consolidation. We see it as being of paramount importance, given that the Fund's engagement is key for those countries, where there is often very weak capacity. The reform package should also increase the attractiveness of the Fund's toolkit for LICs. This is a very good point as well. The reform will allow, when needed, higher access to concessional funding and longer programs. We welcome this outcome, which is very important for us, as we believe that it will help LICs in addressing more effectively key macrostructural issues linked to the continuum, domestic resources mobilization, public financial management, and governance. In that regard, a longer program could be associated with conditionalities related to macrostructural issues, as discussed in the Review of Conditionality recently. A gradual adjustment associated with well-targeted TA will also facilitate progress on social spending, which is key as well for LICs. The reform will also create the conditions for more realistic projections at the start of the program. Looking forward, in case the design of a Fund program is discussed in the aftermath of an election and where there is strong ownership, a four- or five-year program should be considered during the discussions with the authorities.

Second, we support the safeguards, which are introduced for countries with a certain level of PRGT funding requiring a new program. We understand that these safeguards will be informational requirements for informal Board engagement but will not prevent a new program from being designed and engaged.

Third, despite the increase of access limits on norms for all concessional facilities, access erosion in terms of gross financing needs is expected to resume immediately after the access limits increase. In that regard, this review does not address the access erosion-related issues over the medium term. This is a source of concern for this chair as well, since the financing needs will increase over time and the official development assistance (ODA) flows are on a downward path. Moreover, private investment might be difficult to attract in the poorest and fragile countries, and global financial conditions will tighten at one point.

For all those reasons, we feel that the decline of access in gross financing needs terms will have to be addressed in future discussions. Looking forward, the question of the appropriate size of the PRGT should be discussed while keeping in mind the need to maintain the principle of self-sustainability.

Mr. Kaizuka made the following statement:

Let me join others in thanking the staff for the comprehensive paper and productive outreach and the written answers to the questions and also this morning's oral interventions, which are crucial for our consideration today.

Let me emphasize also that I take very serious note that Mr. Meyer has indicated his intention to make an additional contribution to expand the PRGT resource envelope. Unfortunately, I cannot reciprocate at this moment. So please allow us to have a discussion within the current PRGT resource envelope.

We welcome the proposal as a package after the long journey with substantive discussions and communication with the Board. A fundamental challenge for the PRGT is how we can respond to the evolving needs of LICs while maintaining the self-sustainability of the mechanism, and also how we can fully utilize the existing facility without creating new ones. The proposed package is delicately designed, balancing certain key factors. Let me turn to three specific points.

First, we appreciate the safeguard measures to be introduced for high access and exceptional access procedures, putting an emphasis on the debt vulnerabilities. We also take positive note of the clearly specified informal Board engagement. We would like to see the actual cases in due course.

Second, with regard to raising the maximum length of the ECF to five years, as we pointed out in the discussion on the Review of Conditionality and also as many other Directors pointed out, a simple extension cannot bear expected fruit. Thus, for the case of a term extension, we call for the enhanced medium-term reform plan, with the strong ownership of the countries, which should be scrutinized on a case-by-case basis. We emphasize that the norm of the term should remain at three years.

Last, on the self-sustainability, we note the proposal of a very innovative methodology to assess the self-sustainability. It seems to be logically right, based on the historical records, but at the same time, it is also true that the new methodology is less conservative than the current one. Therefore, we call for a more careful monitoring of the financial situation of the mechanisms and timely consideration of the contingency measures, if necessary, and communication with the Board and creditors well in advance.

Mr. Doornbosch made the following statement:

I thank the staff for their hard work on this process. We have issued a joint gray statement, so I want to emphasize two points that were also addressed in the opening remarks.

The first one is on the self-sustainability of the PRGT. We are reassured that this is the case, but we also would like to highlight the importance of contingency measures. The staff mentioned in the beginning that they carefully monitor the risks and how they are developing. Mr. Inderbinen, Ms. Levonian, Mr. Kaizuka, Mr. Lopetegui also stressed the importance of monitoring this. We were wondering whether there is a way to keep them more active and alive by, for example, updating them in the Board more frequently.

My second point is on the blending proposal. We support this proposal. We believe it is important to free up scarce resources for the most vulnerable of our members. The suggested case-by-case approach seems like a good way to handle this. However, at the same time, assessing prospective access to international financial markets at a time of increased volatility, as well as performing a Debt Sustainability Analysis (DSA) in this situation is not easy. It raises reputational risks for the Fund. The review of the handbook is, in that context, extremely important to make sure country teams have a full range of scenarios and will advise a cautious and conservative approach in order to safeguard the Fund’s reputation and its resources.

Finally, on the issue raised by Mr. Meyer on the financing of the PRGT going forward, it might be necessary to reconsider whether the SDR 1.25 billion target is sufficient. We support the call to countries that have pledged resources to also contribute. There are some countries in our constituency that are still developing and emerging that are contributing to the PRGT. It would be good if other countries could reconsider starting to contribute to the PRGT.

Mr. Fanizza made the following statement:

First, let me say that we are quite pleased with the job done by the staff, particularly in their capacity to craft a complex package that puts together our different needs in a balanced way. that is very good. We also liked also the way in which the staff related with us through their continuous outreach efforts. That is very good. We are very pleased with that. I will repeat it.

While we have issued a gray statement together with 10 other Directors, representing both borrowers and contributors—that is important to underline—I would like to see more of that. I thank my colleagues who were kind enough to join that effort. I do not want to belabor the points made in our gray statement or give the impression that I do not agree. I have a few points to raise.

One point is on lending. We fully support it, for the reasons that my colleagues have already highlighted. On top of that, the blending proposal helps to mitigate the concerns expressed by Mr. Moreno, Ms. Del Cid-Bonilla, and Mr. Montero, on the possible moral hazard that is presented by the fact that large nonconcessional borrowers have been able to tap concessional resources. It goes in the direction of mitigating this factor.

I fully support Mr. Mahlinza's and Mr. Raghani's request that staff explore the modalities for debt relief for Somalia and Sudan. It is very important for us. It is something on which the staff and the Board will have to work on shortly, in the future.

Also, I support Ms. Levonian's emphasis on the idea that the quality design of a program is what will be important for the success of the PRGT.

I was a bit confused by what Mr. Meyer was saying that all PRGT programs are UCT conditionalities. I may have misunderstood.

Also, we welcome the idea that many people want to increase their contributions to the PRGT, and we are willing to consider it. But I would stress that the door is open. If people want to contribute, please go ahead. I will push on my side to do that also.

Mr. Di Tata made the following statement:

We thank the staff for this comprehensive review, the constructive outreach before this meeting, and the efforts to incorporate Directors' previous suggestions. We support the staff's proposed package of reforms to the LIC facilities, which seeks to enhance support for LICs while preserving the self-sustainability of the PRGT financing framework. We issued a gray statement but would like to focus on three issues.

First, on blending, we agree on the need to better target the PRGT's scarce concessional resources to the poorest members. But, as indicated in the past, we believe that removing the blending exclusion automatically for higher-income LICs that have market access but are at high risk of debt distress was not the right way to go. In this regard, we welcome the staff's proposal to remove the blending exclusion for this group of countries, provided that they have substantial market access, including on a prospective basis. This proposal allows for exercising judgment on a case-by-case basis to determine whether the blending requirement of prospective market access is met. Based on the proposal, judgment on prospective market access will be based on several factors, including the evolution of debt vulnerabilities in the context of the program's DSA and the quality of public debt data. We also agree with the staff that specific guidance on the assessment of prospective market access should be included in the Handbook of IMF Facilities for Low-Income Countries.

Second, we believe that the use of the Economic Development Document (EDD), now renamed as the Poverty Reduction and Growth Strategy (PRGS), should be continued for ECF and Policy Support Instrument (PSI) programs because of their medium-term nature and emphasis on poverty reduction objectives. However, in line with the reservations expressed by other Directors, we are not fully convinced that EDDs are necessary for short-term facilities, including SCF arrangements with an initial duration exceeding two years. At the same time, we welcome the greater flexibility being allowed on the timing required to produce the EDD.

Lastly, we take note that the proposed reform package should be generally consistent with the self-sustained PRGT financing framework. However, we agree that the evolution of the PRGT's capacity will require careful monitoring, given the downside risks. At the same time, we noted that the CCRT is currently significantly underfunded, which limits the ability of the Fund to assist countries hit by natural disasters. We encourage the staff to explore options to address this issue.

Mr. Mouminah made the following statement:

I join others in thanking the staff for their informative papers and for their helpful outreach. We commend the staff for their efforts to finalize the reform proposal and hope that the proposed package will meet the evolving needs of LICs while safeguarding the self-sustainability of the PRGT financing framework. I thank Mr. Nolan for his opening remarks and further clarification this morning. We issued a gray statement, but we have some points for re-emphasis.

Here, we emphasize the importance of the continuous stocktaking of experiences with the facilities toolkit to ensure that PRGT resources strike the right balance between remaining prudent, prudently safeguarded, and also better targeted to help meet the objectives of the Fund’s lending to LICs, especially the poorest and most vulnerable, something that was already highlighted by other Directors.

We broadly support the reform package. That includes increasing the access limits, improving current safeguards, and blending resources, and the proposal to enhance the flexibility and the effectiveness of both the SCF and the ECF. As raised by Mr. Geadah, we ask the staff to clarify how the country-by-country blended assessment will be handled.

We thank the staff for the clarification on the RCF access limits. We believe that the targeted increases of RCF access limits provide greater flexibility to assist FCS or countries hit by natural disasters and would help to meet the considerable challenges faced by them. Mr. Johnston kindly provided us with a view of the realities faced by these countries today. We look forward to the outcome of the review of the Fund’s Debt Limits Policy to underscore the importance of the debt sustainability for countries requesting the Fund’s financial support.

I would also like to echo the comments raised by Ms. Levonian on the importance of communication for this reform. I would also support the consideration and the proposal of debt relief for Somalia and Sudan that was raised by Mr. Mahlinza and Mr. Raghani.

Finally, we look forward to the 2020 update of the Board on options for addressing the underfunded CCRT fund.

Mr. Tolstikov made the following statement:

I thank the staff again for their efforts to improve the complex LIC financing framework, for their informative report, and for their helpful answers to the technical questions. In addition to our gray statement, I would like to clarify our position on three points.

First, on additional safeguards. We support a strengthening of the safeguards in case of high access requests. Rising debt vulnerabilities in LICs may affect their capacity to repay the Fund. Therefore, we believe that, in high access cases, it is appropriate to require a full assessment of debt sustainability to preserve Fund resources. We agree with the introduction of the so-called "stock triggers," which can prevent an excessive accumulation of outstanding Fund credit in repeated program cases. We welcome the proposed early informal Board engagement in discussing the high access cases. It would allow us to better reflect the Board's guidance in the design of the high access programs.

Second, on the five-year ECF, while we still have doubts about the practicality of increasing the maximum duration of ECF programs to five years, we can go along with the consensus.

Finally, on blending and the self-sustainability of PRGT, the relaxation of the taboo for countries at high risk of debt distress to blend PRGT with GRA resources looks controversial, as it contradicts other efforts to reduce risks to the Fund's resources. However, the report and the responses to technical questions provided by the staff show that this program is fully appreciated, and the new practice will be implemented cautiously on a case-by-case basis and with additional safeguards. We can support such courses of action. At the same time, we look forward to annual updates of PRGT financing to see how the modifications to the LIC financing framework perform in practice.

Ms. Mahasandana made the following statement:

We have issued a gray statement, but we would like to offer a brief remark for emphasis.

We welcome the staff's excellent efforts in strengthen the LIC facilities, which entails appropriately weighing a number of important but potentially competing priorities. We also recognize the different views on the extent of the proposed reform, as reflected in the gray statements and also in this morning's interventions.

While we support the proposed package of reforms, we also recognize that this is the second review of the Fund's concessional facilities since the establishment in 2009, so we call for a more frequent review of the implementation of this reform and a timely update to the Board accordingly.

Like other Directors have mentioned in their gray statements and also in this morning's interventions, we underscore the importance of an ongoing monitoring and review of the effectiveness of the concessional facility to meet the LICs' evolving needs and to ensure that PRGT resources remain prudently safeguarded. This is to help meet the objective of the Fund's lending to LICs and to maintain its self-sustainability.

In this regard, we welcome the setting up of the timeline for the next review of LIC facilities. However, we also view that the timely update of the Board on progress with the LIC program would be crucial. Any significantly adverse changes that come into play prior to the formal schedule should be brought to the Board's attention so that they can be addressed more promptly.

Mr. Meyer made the following statement:

I just wanted to highlight that all chairs are in favor of an increase in access, this chair included. We achieve a one-third increase. There would have been only a 20 percent increase possible without the new blending proposal if we wanted to safeguard the self-sustainability. Now, this proposal on the blending is a tradeoff because some LICs—those with a high risk of debt distress—will not get concessional resources.

Ms. Levonian said it is appropriate. One should at least acknowledge that this is a tradeoff and that this is not a win-win for all countries. We do not even need to go into what the German chair would always say, that we are moving risks from the PRGT to the GRA. Just acknowledging that some countries will not get concessional resources—as the Russian chair just said—in spite of high debt levels clearly shows that this is a tradeoff.

This chair probably would be in favor of a higher increase of access limits for PRGT facilities, were these within the limits of the self-sustainability. Exactly for the reasons mentioned by the French chair—such as scarce ODA resources—maybe in some cases we would need more resources. To achieve that, we would probably need more subsidy resources.

Mr. Kaizuka is usually always very friendly with me. I did not have the impression today because he put me on the spot, as Mr. Fanizza did. If he proposes to do so, he should just go ahead with additional subsidy contributions. This is not what I said, for one reason. As we have been discussing for years with staff, we are in a very difficult spot in Germany to make this happen. With the tradeoffs that I mentioned, it is time that we have a holistic discussion going forward. We are not in a position to say today that we could solve the difficulties on our side. I would have the highest esteem for those chairs that are in a position to increase their subsidies. We would certainly try to be part of that, if that should be possible.

Mr. Raghani made the following statement:

For different reasons, we strongly support Mr. Meyer's indication that the time may come soon to consider raising PRGT resources. A growing number of chairs are coming to this conclusion. We welcome this recognition of the need to increase the envelope while keeping the principle of self-sustainability, as noted by Mr. Bellocq. We would expect this to be reflected in today's Summing Up.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Nolan), in response to further questions and comments from Executive Directors, made the following additional statement:

Ms. Levonian noted that she wanted to underscore the importance of improving program design by coming back to it again. I would like to underscore the importance we attach to that issue by coming back to it again as well.

One key lesson we learned from the IEO report on fragile states was: "A great guidance note –but what is happening on the ground?" The 2012 guidance note on fragile state engagement is very good, but it does not seem to affect how staff actually operate.

Relatedly, a key lesson from the Review of Conditionality was the need to improve program design, including in programs with low income countries. One could conclude from the Review that, in terms of program success, the glass was half full or half empty, but I think that all agreed that there should be more water in the glass – a point staff fully recognizes.

In a sense, IMF facilities provide the shell within which Fund-supported programs take place. And it is the quality of program design, including how it is implemented from review to review, that is essential to program success. In SPR, we have heard the message from the Board very clearly in recent weeks on this topic.

We also take on board the comments made by a number of Directors on the importance of approaching the blending decision with regard to countries at high risk of debt distress with care and implementing it in a judicious and an evenhanded fashion.

Let me be over-simplify the issue. In the case of countries that have had very high levels of market access and also have prospective access, we have approached the issue of lending to countries at high risk of debt distress through the lens of the risk to the Fund's resources. The main risk to the Fund's resources when a country enters debt distress is where most of the other forms of public debt are not re-schedulable.

Countries that have had large market access have lots of reschedulable debt, but we are not naïve in that regard because lots of that debt may be collateralized, which is why the staff report emphasizes looking at public debt data quality to be assured that the Fund and other senior creditors have modest exposure relative to other creditors. We are being hardheaded in terms of protecting the Fund's resources, both PRGT and GRA in such situations.

On the third point, some Directors supported, while others questioned, the case for lengthening the maximum term of the ECF. The key point here, as some Directors noted in their grays, is that the norm for an ECF will remain three years. A case will have to be made by staff, as is already the case for a four-year ECF, as to why a five-year program period better fits country needs than a three-year program. The five-year option is available, but the norm is to be a three-year program.

In the discussion last July, staff was proposing both a shorter ECF for fragile states and a longer ECF for fragile states. Some Directors had asked what was going on in this regard. The answer is that we had two very different kinds of fragility in mind: the discussion about fragile states in today's paper focuses on post-conflict societies or societies that are internally unstable, where maintaining short-term stability is a significant challenge and policy-makers need to focus on near-term developments. By contrast, longer-term ECFs (up to five years) are envisioned for countries that have very weak institutions but are not necessarily fragile in the sense that they could well fall apart tomorrow.

As a final thought on the PRGS, in proposing that they would apply to any programs longer than two years, we felt that it was not the choice of facility (ECF versus SCF) that should determine the need for a poverty reduction strategy, but rather the length of the program and, correspondingly, the scale of access to PRGT subsidy resources. If you are seeking a program covering more than two years, and tapping the PRGT for the requisite financial support, you should put down in a short paper your strategy for tackling poverty and promoting growth – the objectives of the PRGT.

The Deputy Director of the Finance Department (Mr. Mumssen), in response to further questions and comments from Executive Directors, made the following additional statement:

I wanted to emphasize that we hear Directors very clearly on the need to monitor the PRGT financing situation regularly. As I said, we will be back with the paper next April. Informally, we will be back earlier for the reasons that many have mentioned. One is, we need to explore how to address the underfunding of the CCRT. I think the best way forward is to see whether there is appetite for meeting pledges, and for giving additional contributions. The very important issue that was mentioned is that the two protracted arrears cases, Somalia and Sudan, if they were to qualify for debt relief, would have significant financial implications for the Fund. This will be a complicated process and one that would require significant additional resources from fundraising.

I also take note that there is appetite to explore the overall size of the PRGT. We will have to look at that very carefully each time when we come back for a review. We did it this time and the judgment was that the resources are adequate, given the financing needs of the LICs at this juncture.

As I said, the uncertainty is significant if we look further down the road. The reason is that our endowment-based model assumes a balance between rising access levels over time and increased use of blending and then an eventual graduation on the other hand. If these two forces do not balance each other out, the SDR 1.25 billion nominal envelope may at some point be a constraint for some countries. We will have to look at that carefully at every facility and financing review.

We are not saying that we can do this one-third increase and then we freeze it for all time. In fact, our model is based on an assumption that access will keep increasing in line with nominal GDP of remaining eligible countries, which means that, hypothetically, in five years' time, when we come back to the Board, if the developments in terms of financing are as we expect, there would be another increase to address the erosion. That is already built in. The question arises if we get into a situation where demand increases much more than we expect right now.

If we were in the high case scenario for five years, then there would not be room for a further increase. That would be one of the contingency measures—not to have access increase if we were in the high case scenario for these five years. That would raise issues about the overall adequacy of the envelope.

Just one note of caution. We have roughly SDR 3.8 billion in subsidy resources, SDR 3.8 billion in addition in the reserve account. That gives an idea of how much money would be needed if we were planning to at some point to increase the SDR 1.25 billion envelope to a significantly higher number. These are significant resources that would be required. It would require time and effort to get there.

In any case, the messages we have heard is that there is interest in reviewing the overall envelope. This time, we felt the envelope is fully adequate and certainly, we will look at it very carefully at the time of the next facility and financing review.

The following summing up was issued:

Executive Directors welcomed the opportunity to discuss reforms proposed in the Review of Facilities for Low-Income Countries (LICs) (the Facilities Review) and to review the financing of the Fund's concessional facilities and debt relief to LICs (the Financing Review). They were encouraged that the Fund has remained actively engaged in supporting LICs during the challenging period since the 2013 review of facilities for LICs. Directors emphasized that the Fund has a key role in supporting LICs, through policy advice, financing, capacity development, and catalyzing donor support.

Directors supported the proposals to increase access to concessional financing and enhance the flexibility and tailoring of the Fund's toolkit to country-specific needs, subject to maintaining the self-sustainability of the

PRGT. To this end, Directors endorsed the package of proposals in the Facilities Review and Financing Review.

Directors broadly supported a generalized increase of one-third in access limits and norms to ensure that the Fund can provide adequate financial support to LICs as needed, while maintaining PRGT self-sustainability.

To strengthen safeguards for PRGT resources alongside the generalized access increase, Directors supported, first, the introduction of an additional trigger for applying high access (HA) procedures, and second, a strengthening of informational and timing requirements for informal HA and exceptional access (EA) Board engagement to enhance the assessment of debt sustainability and capacity to repay (paragraphs 24-26 of the Facilities Review) as well as the modifications to the access threshold trigger for a new DSA. Furthermore, most Directors supported the clarification of the market access criterion for EA under the PRGT.

Most Directors supported removing the exclusion from presumed blending for higher-income LICs at high risk of debt distress, provided they have substantial access to international financial markets on both a past and prospective basis (paragraph 31 of the Facilities Review), including the application of staff judgment in assessing prospective market access when considering blending for such members. While the severity of debt vulnerabilities is an important factor in assessing whether blended financing is appropriate, Directors generally agreed that scarce subsidy resources should be targeted to the poorest and most vulnerable LICs, noting the still favorable terms of blended financing from the GRA and the PRGT. Directors reaffirmed that, where a member accesses Fund resources in the GRA in a blend with PRGT resources, the member would be expected to meet applicable policies governing financing under the respective GRA instrument, including the expectation that the member's policies are implemented in a manner that would lead to a strengthening of the member's balance of payments before repurchases begin.

Directors supported the proposals to make LIC facilities more responsive to the needs of fragile and conflict-affected states (FCS). Therefore, in addition to the generalized one-third increase in access limits, they supported a doubling of the annual RCF access limit under the regular window, together with the safeguards of introducing an annual RCF access norm at 25 percent of quota and also limiting the maximum size of a single disbursement to 25 percent of quota under the regular window. Directors further endorsed the call for greater flexibility in the design of ECF-supported programs for countries that need to focus attention on near-term objectives, while meeting upper credit tranche standards and maintaining consistency with the provisions of the ECF.

To increase the scope for providing Fund support to members that experience urgent balance of payments needs from large natural disasters, Directors supported a further one-third increase in the cumulative access limits under the RCF for disbursements associated with such disasters, in addition to the generalized access increase.

Directors agreed to increase annual and cumulative access limits under the Rapid Financing Instrument (RFI) by one-third and to increase the cumulative limit by a further one-third for disbursements associated with large natural disasters, which would expand the scope for providing emergency financial support to countries that are not eligible for concessional financing while preserving broad harmonization of access limits across the RFI and RCF.

Most Directors endorsed the proposal to extend the maximum initial duration of ECF arrangements from four to five years, which could be appropriate in cases where longer-term structural reform efforts are critical to the success of the program and a well-sequenced reform plan with strong ownership is in place but noted that shorter back-to-back arrangements could often achieve broadly similar goals. They generally supported the removal of sub-limits on access for SCF arrangements that are approved on a precautionary basis and the extension of the maximum duration of SCF arrangements from two to three years. Directors also supported the proposal on automatic termination of new SCF arrangements of more than 24 months if no program review under the arrangement has been completed over a period of eighteen months.

Directors supported renaming the Economic Development Document as the Poverty Reduction and Growth Strategy (PRGS). They expressed broad support for strengthening program links to poverty reduction, including by requiring a PRGS whenever an SCF arrangement or PSI has an initial duration exceeding two years. They supported greater flexibility in the timing of PRGS requirements, including extensions for countries that need to focus limited institutional capacity on near-term measures to enhance economic and political stability.

Directors welcomed the thorough review of the financing framework to provide concessional financial support to LICs. They concurred with the assessment that the financing capacity of the PRGT has remained intact and that the proposed package of reforms of the LIC facilities can be accommodated within the self-sustained PRGT, with risks evenly balanced over the medium term. Directors stressed that the evolution of the PRGT's lending capacity will need to be monitored carefully, and policies reviewed periodically, to ensure that PRGT self-sustainability is preserved. A number of Directors considered that, going forward, a review of the overall envelope of PRGT resources might be warranted.

Directors acknowledged that debt relief initiatives face significant funding challenges. They asked staff to explore options to address the under-funding of the Catastrophe Containment and Relief Trust. They also noted the need to mobilize new resources to finance debt relief for countries with remaining protracted arrears to the Fund once they are ready to clear arrears and participate in the HIPC Initiative.

Directors agreed the next review of the Fund's facilities for LICs will take place on the standard five-year cycle, while access norms and limits could be reviewed earlier if warranted. Many Directors underscored that future reviews should consider all aspects of the PRGT's architecture.

The Executive Board took the following decisions:

Review of the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Countries

The Executive Board notes the report entitled "Review of the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Countries," and decides that the annual review of the financing of the Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations, contemplated in paragraph 2 of Decision No. 11436-(97/10), adopted on February 4, 1997, as amended, is completed. (SM/19/99, 05/06/19)

Decision No. 16514-(19/42), adopted
May 24, 2019

Review of the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Countries - Amendments to the Poverty Reduction and Growth Trust Instrument

1) The Instrument to establish the Poverty Reduction and Growth Trust (PRGT Instrument) annexed to Decision No. 8759-(87/176) ESAF, as amended, is revised as follows:

i) In Section II, paragraph 1 (e)(2), "December 31, 2024" shall be substituted for "December 31, 2020."

ii) In Section III, paragraph 3, third sentence, "December 31, 2029" shall be substituted for "December 31, 2024." (SM/19/99, 05/06/19)

Decision No. 16515-(19/42), adopted
May 24, 2019

There was an abstention by the office of Mr. Meyer (GR) on the decision 2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the PRGT Instrument (SM/19/100, Supplement 2, 05/21/19):

2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the PRGT Instrument

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 amended as follows:

Initial duration and extension of ECF arrangements

In Section II, paragraph 1(b) (1) of the PRGT Instrument, the references to "up to four years" in the first and second sentences shall be replaced by "up to five years".

Initial duration and extension of SCF arrangements

In Section II, paragraph 1(c) (1) of the PRGT Instrument, the reference to "from one to two years" in the second sentence shall be replaced by "from one to three years"; the word "or" shall be added in the ninth sentence after the words "the next twelve months"; the reference to "or the automatic termination of the SCF arrangement" shall be added in the tenth sentence after the words "or the cancellation of the SCF arrangement by the member"; and the reference to "two and a half years out of any five-year period" in the penultimate sentence shall be replaced by "three years out of any six-year period".

Overall amount of access under PRGT arrangements

Section II, Paragraph 2(a) shall be amended to read:

"(a) 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 100 percent of quota; and (ii) a cumulative limit of 300 percent of quota, net of scheduled repayments. The Fund may approve access in excess of these limits in cases where the member is experiencing an exceptionally large balance of payments need, has a comparatively strong adjustment program and ability to repay the Fund, does not have sustained past access to international financial markets, and has income at or below the prevailing operational cutoff for assistance from the International Development Association (IDA); provided that access shall in no case exceed (i) a maximum annual limit of 133.33 percent of quota, and (ii) a maximum cumulative limit of 400 percent of quota, net of scheduled repayments. For the purpose of this sub-paragraph, a member is deemed to have sustained past access to international financial markets if, in addition to having income above 80 percent of the IDA operational cutoff, the public debtor has issued or guaranteed external bonds or has received disbursements under external commercial loans contracted or guaranteed by the public debtor, as defined in Executive Board Decision No. 14521-(10/3), as amended, during at least two of the past five years in a cumulative amount equivalent to at least 25 percent of the member's quota."

Sub-limits for access under the RCF

Section II, Paragraph 2(b) on the access limits applicable to RCF disbursements shall be amended to read:

"(b) The access of each eligible member under the RCF shall be subject to an annual limit of 50 percent of quota, and a cumulative limit of 100 percent of quota, net of scheduled repayments, subject to the following provisions:

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

(ii) the annual and cumulative access limits under the RCF shall be 80 percent of quota and 133.33 percent of quota, net of scheduled repayments, respectively, where (a) the member requests assistance under the RCF to address an urgent balance of payments need resulting from a natural disaster that occasions damage assessed to be equivalent to or to exceed 20 percent of the member's gross domestic product (GDP), and (b) the member's existing and prospective policies are sufficiently strong to address the natural disaster shock; and

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

Sub-limit on precautionary use of the SCF

Section II, Paragraph 2(c) establishing sub-limits on access at approval of precautionary SCF arrangements shall be deleted from the PRGT Instrument to abolish such sub-limits.

Increase in the threshold for lapse of time procedures for ECF and SCF augmentation requests

Section II, Paragraph 2(h) shall be amended to increase the threshold for lapse of time procedures for ECF and SCF augmentation requests.

"(h) The amount of resources committed to a qualifying member under an ECF or SCF arrangement may also be increased by the Trustee in an ad-hoc review between scheduled reviews under the arrangement to address an increase in the underlying balance of payments problems of the qualifying member where the problem is so acute that the augmentation cannot await the next scheduled review under the arrangement. The Trustee, however, shall not approve requests for augmentation at an ad hoc review if the scheduled review associated with the most recent availability date preceding the augmentation request has not been completed. In support of a request for augmentation between scheduled reviews under an ECF or SCF arrangement, the member will describe in a letter of intent the nature and size of its balance of payment difficulties, and any information relevant to program implementation, including exogenous developments. Before approving such augmentation, the Trustee shall be satisfied that the program remains on track to achieve its objectives at the time of the augmentation, based on the information provided by the member, and, in particular, that the member is in compliance with any continuous performance criteria or that a waiver of nonobservance is justified and that all prior actions have been met. Requests for augmentation of access that do not exceed 15 percent of quota would be considered for approval on a lapse-of-time basis as provided for in Decision/A/13207, as amended. Following its approval by the Trustee, the augmentation of access under the arrangement will not exceed the amount immediately needed by the member in light of its balance of payments difficulties and will become available to the member in a single disbursement, which the member may request at any time until the availability date of the next scheduled disbursement under the ECF or SCF arrangement. A program review following an augmentation of access under the arrangement between scheduled reviews would be expected to include a comprehensive review of policies under the program. In order to allow the Trustee to undertake such a comprehensive assessment of the member's policies, this review may not be completed on a lapse of time basis."

Poverty Reduction Strategy

Section II, Paragraph 1(b)(3) of the PRGT Instrument shall be amended to read:

"(3) (i) Subject to subparagraph (ii) below, the Trustee shall not complete the second or any subsequent review under an ECF arrangement unless it finds that: (A) the member concerned has a poverty reduction strategy that has been developed and made publicly available normally within the previous 5 years but no more than 6 years, and covers the period leading up to and covering the date of the completion of the relevant review; and (B) the poverty reduction strategy has been issued to the Executive Board and has been the subject of a staff analysis in the staff report on a request for an ECF arrangement or a review under an ECF arrangement. A Poverty reduction strategy issued to the Executive Board on or after May 24, 2019 shall be named Poverty Reduction and Growth Strategy (PRGS) and a poverty reduction strategy that has been issued to the Executive Board as an Economic Development Document shall be deemed a PRGS. A PRGS shall comprise any of the following: (a) a document developed by a member country on its national development plan or strategy that is already in existence and publicly available, and documents its poverty reduction strategy; or (b) a document newly prepared by a member country documenting its poverty reduction strategy. A PRGS shall be accompanied by a cover letter from the member country concerned to the Managing Director, and shall be issued to the Executive Board with the cover letter. As such, the cover letter shall be deemed to constitute part of the PRGS.

(ii) In cases where a member has limited institutional capacity for meeting the PRGS requirement specified in subparagraph (i) above, the member may request approval by the Executive Board of an extension of the deadline for issuance of the PRGS up until the fourth review under the ECF arrangement. Any request for an extension shall be made no later than the time of the request for completion of the second review. A member may request approval of a further extension of the deadline for issuance of the PRGS up until the sixth review under the ECF arrangement, provided that: (A) the member can provide adequate justifications based on persistent limited institutional capacity for meeting the PRGS requirement and other urgent priorities; and (B) the member's arrangement has a duration of at least four years, or an extension of the arrangement to at least four years is requested. Any request for such additional extension of the deadline for issuance of the PRGS shall be made no later than the time of the request for completion of the review corresponding to the extended deadline for the PRGS requirement."

A new Section II, Paragraph 1(c)(4) of the PRGT Instrument shall be added to read:

"(4) The Trustee shall not complete the second or any subsequent review under an SCF arrangement with an initial duration exceeding two years unless it finds that: (A) the member concerned has a poverty reduction strategy that has been developed and made publicly available normally within the previous 5 years but no more than 6 years, and covers the period leading up to and covering the date of the completion of the relevant review; and (B) the poverty reduction strategy has been issued to the Executive Board and has been the subject of a staff analysis in the staff report on a request for an SCF arrangement or a review under an SCF arrangement. A poverty reduction strategy issued to the Executive Board on or after May 24, 2019 shall be named Poverty Reduction and Growth Strategy (PRGS) and shall comprise any of the following: (a) a document developed by a member country on its national development plan or strategy that is already in existence and publicly available, and documents its poverty reduction strategy; or (b) a document newly prepared by a member country documenting its poverty reduction strategy. A PRGS shall be accompanied by a cover letter from the member country concerned to the Managing Director, and shall be issued to the Executive Board with the cover letter. As such, the cover letter shall be deemed to constitute part of the PRGS."

Defunct SCF Arrangements

A new Section II, paragraph 1(c)(5) of the PRGT Instrument will be added to read as follows:

"(5) A member may cancel an SCF arrangement at any time by notifying the Fund of such cancellation. An SCF arrangement for a member approved after the date of adoption of this decision, which has an initial duration of more than 24 months or is extended to more than 24 months, will automatically terminate before its term if no program review under the arrangement has been completed over a period of eighteen months. The Trustee, at the authorities' request, may decide to delay the termination of the arrangement by up to three months in cases where the reaching of understandings between the authorities and the Trustee on targets and measures to put the SCF-supported program back on track within the term of the arrangement, appears imminent. The SCF arrangement will automatically terminate at the end of the extended period unless a program review under the arrangement is completed within this period." (SM/19/100, Supplement 2, 05/21/19)

Decision No. 16516-(19/42), adopted
May 24, 2019

There was an abstention by the office of Mr. Meyer (GR) on the decision 2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Rapid Financing Instrument Decision (SM/19/100, Supplement 2, 05/21/19):

2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Rapid Financing Instrument Decision

The Decision establishing the Rapid Financing Instrument (RFI), Decision No. 15015-(11/112), November 21, 2011, as amended, shall be amended as follows:

Paragraph 5 of the RFI decision shall be amended to read:

"Assistance under this Decision shall be made available to members in the form of outright purchases. Access by members to resources under this Decision shall be subject to (a) an annual limit of 50 percent of quota, and (b) a cumulative limit of 100 percent of quota, net of scheduled repurchases, provided that the annual access limit shall be 80 percent of quota and the cumulative access limit shall be 133.33 percent of quota, net of scheduled repurchases, where (i) the member requests assistance under the RFI to address an urgent balance of payments need resulting from a natural disaster that occasions damage assessed to be equivalent to or to exceed 20 percent of the member's gross domestic product (GDP), and (ii) the member's existing and prospective policies are sufficiently strong to address the natural disaster shock." (SM/19/100, Supplement 2, 05/21/19)

Decision No. 16517-(19/42), adopted
May 24, 2019

There was an abstention by the office of Mr. Meyer (GR) on the decision 2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Policy Support Instrument Framework Decision (SM/19/100, Supplement 2, 05/21/19):

2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Policy Support Instrument Framework Decision

The decision establishing the Policy Support Instrument, Decision No. 13561-(05/85), October 5, 2005, as amended, shall be amended as follows:

Paragraph 5 of the PSI Decision shall be amended to read:

"5. Poverty Reduction Strategy (PRS) Documents. The member's program will be based on the member's poverty reduction strategy, which will be set forth in a Poverty Reduction and Growth Strategy (PRGS)."

Paragraph 8 (ii) of the PSI Decision shall be amended to read:

"(ii) The Trustee shall not complete the second or any subsequent review under a PSI with an initial duration exceeding two years unless it finds that (A) the member concerned has a poverty reduction strategy that has been developed and made publicly available normally within the previous 5 years but no more than 6 years, and covers the period leading up to and covering the date of the completion of the relevant review; and (B) the poverty reduction strategy has been issued to the Executive Board and has been the subject of a staff analysis in the staff report on a request for a PSI or a review under a PSI. A Poverty reduction strategy issued to the Executive Board on or after May 24, 2019 shall be named Poverty Reduction and Growth Strategy (PRGS) as set forth in paragraph 5 above and a poverty reduction strategy that has been issued to the Executive Board as an Economic Development

Document shall be deemed a PRGS. A PRGS shall comprise any of the following: (a) a document developed by a member country on its national development plan or strategy that is already in existence and publicly available, and documents its poverty reduction strategy; or (b) a document newly prepared by a member country documenting its poverty reduction strategy. A PRGS shall be accompanied by a cover letter from the member country concerned to the Managing Director, and shall be issued to the Executive Board with the cover letter. As such, the cover letter shall be deemed to constitute part of the PRGS." (SM/19/100, Supplement 2, 05/21/19)

Decision No. 16518-(19/42), adopted
May 24, 2019

There was an abstention by the office of Mr. Meyer (GR) on the decision 2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Transparency Policy Decision (SM/19/100, Supplement 2, 05/21/19):

2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Transparency Policy Decision

Transparency Policy Decision, Decision No. 15420-(13/61), adopted June 24, 2013, as amended, shall be amended as follows:

Paragraph 4.a shall be amended to read:

"4. a. The Managing Director will not recommend that the Executive Board approve (i) an arrangement under the Poverty Reduction and Growth Trust (PRGT) or completion of a review under such arrangement, or (ii) a Heavily Indebted Poor Countries (HIPC) decision point or completion point decision, or (iii) a member's request for a PSI or the completion of a review under a PSI, if the member concerned does not explicitly consent to the publication of its Interim Poverty Reduction Strategy Paper (I-PRSP), Poverty Reduction Strategy Paper (PRSP), PRSP preparation status report, PRSP annual progress report (APR), Economic Development Document ("EDD") or Poverty Reduction and Growth Strategy (PRGS) (Document 10 or Document 15, as the case may be)."

Paragraph 11 shall be amended to read:

"11. After the Executive Board (i) adopts a decision regarding a member's use of Fund resources (including a decision completing a review under a Fund arrangement), or (ii) adopts a decision approving a PSI or a PCI, or conducts a review under a PSI or a PCI, or (iii) completes a discussion on a member's participation in the HIPC Initiative, or (iv) completes a discussion on a member's I-PRSP, PRSP, PRSP preparation status report, APR, EDD, or PRGS in the context of the use of Fund resources or a PSI, a Press Release, which will contain a Chairman's statement on the discussion, emphasizing the key points made by Executive Directors, will be issued to the public. Where relevant, the Chairman's statement will contain a summary of HIPC Initiative decisions pertaining to the member and the Executive Board's views on the member's I-PRSP, PRSP, PRSP preparation status report, APR, EDD or PRGS in the context of use of Fund resources or a PSI. Waivers for nonobservance, or of applicability, of performance criteria, and any other matter as may be decided by the Executive Board from time to time (Document 21), and waivers for nonobservance of assessment criteria, and any other matter as may be decided by the Executive Board from time-to-time (Document 22), will be mentioned in the factual statement section of the Press Release or in a factual statement issued in lieu of a Chairman's statement as provided for in paragraph 13(b). Before a Press Release is issued, it will, if any Executive Director so requests, be read by the Chairman to the Executive Board and Executive Directors will have an opportunity to comment at that time. The Executive Director elected, appointed, or designated by the member concerned will have the opportunity to review the Chairman's statement, to propose minor revisions, if any, and to consent to its publication immediately after the Executive Board meeting. Notwithstanding the above, no Press Release published under this paragraph shall contain any reference to a discussion or decision pertaining to a member's overdue financial obligations to the Fund, where a Press Release following an Executive Board decision to limit the member's use of Fund resources because of the overdue financial obligations has not yet been issued. In the case of an Executive Board meeting pertaining solely to a discussion or decision with respect to a member's overdue financial obligations, no Chairman's statement will be published."

Paragraph 13.b (i) shall be amended to read:

"(i) If a member does not consent to the publication of a Press Release containing a Chairman's statement (Documents 7 and 20) under paragraph 11 where one would be applicable, or if no Chairman's statement has been issued because a decision was taken on a lapse-of-time basis, a brief factual statement will be issued immediately after the Board consideration. The factual statement will describe the Executive Board's decision relating to (a) that member's use of Fund resources (including HIPC initiative decisions (Document 8), waivers (Document 21), and consideration of PRSP documents, EDDs and PRGSs (Document 10), when relevant), or (b) the approval of a PSI or a PCI for that member, or the conduct of a review under that member's PSI or PCI (including waivers (Document 22) and consideration of PRSP documents, EDDs and PRGSs (Document 15), when relevant)."

Paragraph 13.b (i) shall be amended to read:

"(i) If a member does not consent to the publication of a Press Release containing a Chairman's statement (Documents 7 and 20) under paragraph 11 where one would be applicable, or if no Chairman's statement has been issued because a decision was taken on a lapse-of-time basis, a brief factual statement will be issued immediately after the Board consideration. The factual statement will describe the Executive Board's decision relating to (a) that member's use of Fund resources (including HIPC initiative decisions (Document 8), waivers (Document 21), and consideration of PRSP documents, EDDs and PRGSs (Document 10), when relevant), or (b) the approval of a PSI or a PCI for that member, or the conduct of a review under that member's PSI or PCI (including waivers (Document 22) and consideration of PRSP documents, EDDs and PRGSs (Document 15), when relevant)."

Paragraph 28 shall be amended to read:

"28. Documents may be published under this decision only after their consideration by the Executive Board, except for documents that are circulated for information only including: (i) I-PRSPs, PRSPs, EDDs and PRGSs; and (ii) Reports on Observance of Standards and Codes (ROSCs) and Assessment of Financial Sector Supervision and Regulation (AFSSR) Reports. Documents covered by this paragraph may be published immediately after circulation to the Executive Board."

Item 10 of Indicative List of Documents Covered by the Decision shall be amended to read:

"10. I-PRSPs, PRSPs, PRSP Preparation Status Reports, APRs, EDDs and PRGSs"

Item 15 of Indicative List of Documents Covered by the Decision shall be amended to read:

"15. I-PRSPs, PRSPs, PRSP Preparation Status Reports, APRs, EDDs and PRGSs in the context of PSIs" (SM/19/100, Supplement 2, 05/21/19)

Decision No. 16519-(19/42), adopted
May 24, 2019

There was an abstention by the office of Mr. Meyer (GR) on the decision 2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Decision on Web Posting of PRS Documentation (SM/19/100, Supplement 2, 05/21/19):

2018–19 Review of Facilities for Low-Income Countries - Reform Proposals - Amendments to the Decision on Web Posting of PRS Documentation

"Web posting of Poverty Reduction Strategy Papers (PRSPs), Interim PRSPs, Annual Progress Reports of PRSPs, PRSP Preparation Status reports, Economic Development Documents and Poverty Reduction and Growth Strategies in accordance with the procedures outlined in SM/06/359 (10/25/06) shall be taken to constitute issuance of such documents to the Executive Board for the purposes of (1) Section II, paragraph 1(b)(3) and paragraph 1(c)(4) of the Instrument to Establish the Poverty Reduction and Growth Trust, Annex to Decision No. 8759-(87/176), adopted December 18, 1987, as amended; (2) Section III, paragraph 2(c) of the Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations, Annex to Decision No. 11436-(97/10), adopted February 4, 1997, as amended; and (3) paragraph 8 of the Policy Support Instrument-Framework, Decision No. 13561-(05/85), adopted October 5, 2005, as amended." (SM/19/100, Supplement 2, 05/21/19)

Decision No. 16520-(19/42), adopted
May 24, 2019

APPROVAL: October 6, 2021

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Implementation and outreach

1. ***The proposals ought to improve the Fund's capacity to target its scarce concessional resources towards the poorest…to deliver on this outcome it will be important to put in place a strong implementation plan supported by appropriate guidance. We would welcome further comments from staff in this regard.***

2. ***We welcome staff's advice of the intended outreach to the area departments and mission chiefs on this reform package and how it relates to the Fund's other policy reviews in support of LICs…to ensure they are applied in a coherent manner.***

Response to Q1-2:

- Staff will work to ensure thorough implementation of the reforms approved by the Board. This will include updating the Handbook of IMF Facilities for Low-Income Countries and extensive outreach to area departments and mission chiefs. Key findings of the Review of Conditionality endorsed by the Board will be incorporated into an updated Operational Guidance on the Conditionality Guidelines.

Blending and debt sustainability

3. ***Given the current clear guidelines in LIC-DSF and in the GRA access policy, could staff elaborate on the context in which case-by-case judgments would be applied and how such decisions would be informed?***

4. ***The proposal allows for exercising judgment in assessing whether the requirement that the country has prospective market access is met. Evenhandedness in this judgment will be very important. We would like staff to elaborate on how this will be pursued.***

5. ***Staffs comments on guidelines for the assessment of prospective market access would be welcome.***

Response to Q3-5:

- The assessment of *prospective* market access for these countries will require judgment. It will be based on staff assessment of various indicators and factors, including the evolution of debt vulnerabilities in the context of the DSA, the evolution of sovereign spreads and credit ratings over time, program assumptions on commercial financing, and the scale and evolution of nonresident holdings of domestic-currency debt. Crucially, the assessment will also hinge on the quality of public debt data—including the coverage of public sector entities outside central government and of publicly guaranteed debt, and transparency—given the threat to prospective market access from significant debt surprises (see paragraph 31 of the main report].

- Specific guidance on the assessment of prospective market access will be included in the LIC Handbook.

6. ***…[T]he assessment of prospective market access…would require judgment on a case-by-case basis based on multiple factors, which would require high quality public debt data. Staff's views are welcome on the current status of public debt data quality as used in the Fund's DSA for LICs and whether it will be sufficient to implement this policy.***

- The quality of debt data varies greatly from country to country and would have to be closely assessed on a case-by-case basis. The new LIC-DSF contains several features to more fully capture debt vulnerabilities in LICs, including the identification of data weaknesses and areas outside the perimeter of reported public debt where public liabilities (including contingent liabilities) may reside, and contingent liability stress tests that are tailored for countries with more limited debt coverage. Insights from DSAs, as well as capacity development activities (if any) would help assess data quality on a case-by-case basis.

7. ***In this regard, we would like to ask whether any additional safeguard measures or program conditionalities can be considered for these at high risk of debt distress blending countries to prevent further deterioration of their debt situation and safeguard GRA resources.***

- Fund policies already embed additional safeguards to avoid further deterioration of debt vulnerabilities in cases where the Fund engages with members at high risk of debt distress.

  - Programs should target a reduction of debt vulnerabilities over time.
  - The appropriate fiscal stance is reflected in program limits on the fiscal balance targets.
  - The limits on borrowing under the Debt Limits Policy are generally more restrictive for countries at high risk of debt distress, further ensuring additional safeguards.
  - Under the Fund's access policies, one criterion for the level of access is the strength of the program, which helps limit credit risk to the Fund.
  - Finally, for high-access cases, additional debt-related scrutiny will be introduced as proposed in the paper.

8. ***We would further appreciate staff's comment whether the MAC DSA framework could be applied to countries with substantial market access and how a country assessed to be in high risk of debt distress under the LIC-DSF framework can at the same time be assessed to have sustainable debt?***

- The LIC DSF remains the appropriate framework for PRGT-eligible countries, which also have access to concessional IDA financing. While these countries have market access, their external financing typically still includes significant concessional credit and thus a focus on *present value* of debt (as in the LIC DSF) is needed to analyze debt-related vulnerabilities.

- The MAC DSA is not appropriate for these countries because debt, GFN and other thresholds in the MAC DSA framework were calibrated on a sample of advanced and emerging market countries that *excluded* PRGT-eligible countries.

- It is also important to note that the new LIC DSF has a new module that is designed precisely for PRGT countries with market access – see paragraphs 77-78 of the *Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries*.

- Finally, as a matter of policy, we do not allow countries to use more than one DSA framework, as this can produce conflicting messages, and could open the door for framework arbitrage.

- An assessment that a country is at high risk of debt distress (or even in debt distress) does not automatically mean that debt is unsustainable. Whether debt is unsustainable requires judgment, which is informed by considerations, such as the magnitude of breaches of debt burden thresholds; whether breaches are increasing over the forecast horizon; whether breaches apply both to liquidity and solvency indicators; the degree of confidence in the macroeconomic forecast; and the feasibility of policies needed to stabilize debt at sustainable levels. See paragraphs 91 and 97-99 of the *Guidance Note on the Fund-Bank Debt Sustainability Framework for Low-Income Countries* for further discussion on assessing sustainability.

Catalytic role

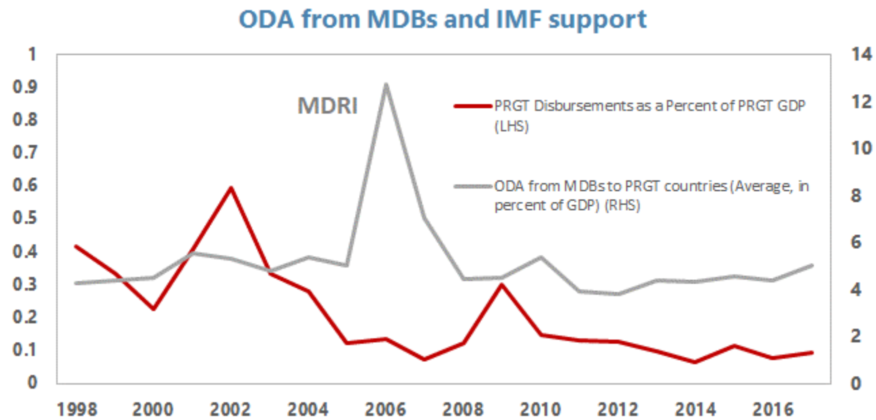
9. ***…[S]ignificant financing by the fund as preferred creditor could lead to a retreat of non-preferred private creditors, threatening the catalytical role of the fund. Staff's comment would be welcome.***

- The size of access will continue to be determined by the standard criteria under the access policy, including the size of the balance of payments need, strength of the program and capacity to repay, and the track record of use of Fund resources.

- Staff's blending proposal ensures that countries at high risk of debt distress are presumed blenders only when they have had significant past market access and are judged to also have prospective market access. For that reason, the proposal assumes the ability to continue to borrow from private creditors, when blending, rather than a retreat of such private creditors.

10. ***We would also appreciate, if staff could comment on how financial support from MDBs to LICs is evolving in relation to Fund support.***

- Multilaterals' support for PRGT-eligible countries has remained broadly constant over time. With regard to Fund support, actual PRGT disbursements have remained broadly flat since the late 2000s despite an uptick in demand around 2008-10.



RCF and RFI

11. ***We wonder if the "per disbursement" limit could constrain a timely and adequate response to a significant economic shock. Staff comments are welcome.***

- There is no per-disbursement limit in cases of exogenous shocks, including economic shocks and natural disasters. The proposed per disbursement limit of 25 percent of quota applies only to the regular window of the RCF and represents a one-third increase over the corresponding current annual limit.

- Considerations behind this limit include (i) providing sufficient safeguards for Fund resources and incentives for sound policies; (ii) avoiding situations where countries capable of implementing upper credit tranche policies seek lower-conditionality RCF resources rather than support under the ECF or SCF; and (iii) more generally, constraints posed by the limited size of PRGT resources.

12. ***On this point, we would like to hear staff's view on the possibility to create regular window in RFI and introduce safeguards like RCF as RFI is not limited to exogenous shocks and natural disasters and can be used for other fragile situations. Staff comments are welcome.***

- Flexibility to provide support to provide rapid financing to states needing emergency support – including members not eligible for PRGT resources – is an important priority of the Fund. From its introduction, the RFI has not had a separate "regular" window, and in practice, RFI use so far has primarily come in the context of natural disasters.

- Reasons for the existence of a separate "regular window" under the RCF include the constrained size of PRGT resources and their greater concessionality (lower interest rates and longer duration) compared to the RFI. The RCF has been used far more frequently than the RFI.

Longer-term ECF

13. ***Does staff expect the lengthening…to result in a reduction of repeated use of Fund programs? Could this be achieved by shifting objectives of a 5-year ECF towards actually achieving macroeconomic stability over the course of a program?***

- It is possible that a five-year ECF may suffice in some cases where the country may have otherwise used two successive three-year arrangements. That said, given the objective under the ECF of making significant progress towards a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth, successive use of support under the ECF would continue to be envisioned even in cases of five-year arrangements. Experience so far has demonstrated that program engagement beyond a five-year horizon could still be useful given the protracted nature of BOP problems in LICs.

14. ***The report states that to justify a five-year program, a well-sequenced reform plan should "normally" be in place. Could staff elaborate under which circumstances there could be an exemption from this requirement?***

- While there would be an expectation of a well-sequenced reform plan, there is merit to preserving flexibility. For instance, a country could have the core program objective of mobilizing domestic revenue over a five-year horizon but could require initial technical assistance to formulate a detailed and sequenced plan.

Other issues

15. ***…[W]e welcome the clarifications…to contain the access threshold trigger. Staff could also consider changes to the threshold trigger for post program monitoring (PPM). Staff comments are welcome.***

- PPM thresholds are calibrated based on the Fund's risk absorption capacity, which is not directly related to access limits but rather to a country's credit outstanding relative to the PRGT reserve account. The reserve account has not changed meaningfully over the years and is not expected to change due to the modification to PRGT access limits. This is why PPM triggers have been left unchanged despite access increases over the years, and why there is no analytical basis to revise them now.

16. ***…[W]e wonder on the usefulness of having the EDD (PRGS) ready until the sixth review, even if only under some circumstances; moreover, it would be contradictory***

with a five-year ECF that would have as requirement the country's development plan. We would appreciate staff's clarification on this.

- While it is important to provide flexibility in exceptional circumstances, we would not normally expect countries with well-developed national development plans and medium-term strategies who seek support under 5-year ECF arrangements to require extensions of the deadline for meeting the EDD (PRGS) requirement.

- Extensions of the deadline for meeting the EDD (PRGS) requirement are geared more towards fragile states with limited capacity that need to prioritize near-term measures before elaborating on medium-term plans.

17. ***We would like staff to confirm whether the clauses to be amended in the PRGT Instrument (Sections II-1(e) (2) and III-3) are protected clauses or not, i.e., whether the amendment will require further approval by loan contributors once endorsed by the Board.***

- Sections II-1(e) (2) and III-3 of the PRGT Instrument are not protected provisions pursuant to Section IX of the PRGT Instrument, and thus the amendments of these sections do not require contributors' consent. However, as current bilateral borrowing agreements providing loan resources to the PRGT only allow for drawings through end-2024, once these amendments are approved by the Executive Board, staff would need to reach out to individual loan contributors to seek their approval for extending the drawdown periods under their agreements until end-2029. As noted in paragraph 9 of SM/19/99, staff will report back to the Executive Board on this outreach by April 2020.

18. ***We also want to stress that the GRA is a preferred creditor and repayment of the GRA should have priority over repayment of the PRGT. Staffs comment would be welcome.***

- There is no rule about prioritizing repayments to GRA vs. PRGT. Under a blended arrangement, the repayments and charges are paid separately to the GRA and the PRGT. The member needs to send separate instructions for the PRGT and GRA portions of blended arrangements, even if both repayments are on the same date.

- A member with overdue financial obligations would be able to attribute repayments to either the outstanding GRA or outstanding PRGT or to both. As long as arrears are in place, the respective policies for dealing with overdue financial obligations would apply (see Boxes 6.8 and 6.9 in IMF Financial Operations).

19. ***We are open to extend the commitment and drawdown period for PRGT lending to end-2024 and end-2029 respectively. A more comprehensive assessment on resource adequacy under different scenarios is needed before we could make our final decision.***

- The proposed extension of the commitment and drawdown periods for PRGT lending (Decision 2) is a procedural measure related to the management of the PRGT's loan resources that are made available by bilateral creditors. Extensions of these periods, specified in the PRGT Instrument, are required at regular intervals to continue the PRGT's lending operations based on available loan resources. The last extension, approved in 2014 (SM/14/79), extended the commitment period to end-2020, and the drawdown period to end-2024. The PRGT's current borrowing agreements, which also reflect this drawdown period in the PRGT, only allow for drawings from these agreements to finance PRGT loans through end-2024.

- The proposed amendments of the PRGT to extend the commitment and drawdown periods would allow the PRGT to continue making new commitments until end-2024, and disbursements until end-2029. Once these amendments are approved by the Board, staff will approach bilateral creditors to amend their respective PRGT borrowing agreements to allow for the new drawdown period under these agreements through end-2029, which can be executed through a simple exchange of letters.

- Given ample uncommitted loan resources (SDR 13.9 billion as of May 16, 2019) and provided that bilateral creditors of these resources would agree with the extension of the drawdown period in their agreements to end-2029, it is expected that the extensions would make available adequate loan resources even under high-demand scenarios, without the need for a new loan mobilization round in the near term.