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The Acting Chairman's Summing Up
Financing the Fund's Concessional Lending to Low-Income Member Countries—
Resource Needs and Options
Executive Board Meeting 09/40
April 21, 2009

Directors welcomed the opportunity to have a preliminary discussion of the financing of the Fund's concessional lending to low-income countries (LICs) and possible options for mobilizing the necessary resources, including their consistency with the Fund's new income model as called for by the G-20 leaders at the London Summit. They stressed the need to ensure that the Fund has adequate financing capacity to meet the needs of LICs, especially over the next two to three years.

Directors agreed that additional loan resources will need to be mobilized promptly to meet the projected demand, and urged staff to begin discussions with potential lenders, including members that have not previously provided loan resources. A number of Directors wished to explore the idea of utilizing the proposed general SDR allocation to mobilize additional loan resources.

Most Directors noted that the Fund has sufficient subsidy resources to meet projected PRGF-ESF demand for about two years, but additional subsidy resources, estimated at SDR 1.5 billion (end-2008 NPV terms), will need to be mobilized to cover needs thereafter. Some Directors, however, considered that higher levels of subsidy resources may be needed even in the near term, including if new LIC lending facilities are established. Some Directors also called for increasing the concessionality of the Fund's assistance to LICs, and asked staff to explore options.

Most Directors considered that the use of resources from the PRGF-ESF Trust Reserve Account could be part of a financing package for mobilizing subsidy resources. Options to cover the remaining subsidy needs consist of mobilizing additional bilateral contributions, delaying the reimbursement of the GRA for PRGF-ESF Trust administrative costs, and using part of the income stream or profits from the gold sales envisaged under the new income model. Directors underscored the importance of preserving the new income model, of which central elements include protecting the endowment that is to be created with the profits from gold sales, and ensuring that, once the new model is fully in place, the margin on GRA lending would cover only the Fund's intermediation costs and accumulation of precautionary balances. A number of Directors questioned whether certain options were consistent with the new income model.

Bilateral contributions. Directors recognized the critical role that bilateral subsidy contributions have played in past fund-raising exercises. Most agreed that such contributions should remain an important part of a new financing package, with appropriate burden sharing. A number of Directors, however, cautioned that, in light of the current budget constraints facing many members, bilateral contributions may fall short of needs.

Delaying PRGF-ESF reimbursement. Directors recognized that the resumption of reimbursement of the GRA for PRGF-ESF administrative expenses is an important element of the new income model. Nevertheless, most Directors considered that, in light of the anticipated demand for PRGF-ESF assistance and the prospects for limited availability of new bilateral subsidy contributions, delaying the reimbursement for a temporary period, say, 3 years, appears to be an option consistent with the relevant Board decision; transfers of an equivalent amount could then be made to LIC subsidy accounts. Some Directors, however, did not believe that present conditions warrant a temporary suspension of the reimbursement.

Use of resources linked to envisaged gold sales. Most Directors agreed that the approach of using a part of the proceeds linked to the sale of the Fund's post-Second Amendment gold, or the income resulting from investment of these proceeds, to support the Fund's concessional lending, would be consistent with the new income model. This approach could be considered given the expectation that the Fund would be able to obtain higher resources from gold sales than had been initially anticipated as well as the overall strengthening in the Fund's income outlook since the new income model was agreed. Directors noted the importance of securing assurances by members of their willingness to return to the Fund amounts broadly equivalent to the resources distributed to them as dividends, in order to ensure minimum leakage of such a distribution. Some Directors felt, however, that any use of resources linked to gold sales as subsidy resources for LICs would not be appropriate, and that dividend payments should be made only after the Fund has built up sufficient precautionary balances. These Directors thus considered the use of these resources to be inconsistent with the new income model.

Directors noted the relative advantages and drawbacks of the three options presented in the staff paper. A few Directors favored the use of windfall profits from higher-than-assumed gold prices as subsidy resources, even though there is no certainty about the size and timing of these windfall profits, and noted that this approach would least affect the Fund's medium-term income position. A few Directors supported using the investment income generated by gold sales, which would preserve the corpus of the gold sales proceeds in the Investment Account. A number of Directors saw merit in using a pre-determined amount of resources linked to gold sales proceeds to finance LIC subsidy needs. While the risk of lower-than-projected gold prices would be borne by the GRA under the latter option, this approach would provide upfront certainty regarding the contribution to LIC subsidy needs.

To conclude, we have had a wide-ranging discussion, with most Directors wishing to keep all options on the table for the present. That said, broad support exists for making strong efforts to raise bilateral contributions while reaching out to nontraditional donors and using a portion of the resources in the PRGF-ESF Trust Reserve Account. Most Directors supported delaying the reimbursement of the GRA for PRGF-ESF Trust administrative costs and transferring an equivalent amount to LIC subsidy accounts. Views on the options for use of resources linked to proceeds from gold sales were diverse. Building on today's discussion, staff will come back with a further exploration of these approaches following the Spring Meetings.