BUFF/10/29

March 19, 2010

The Acting Chair's Summing Up
Facilitating Mobilization of Loan Resources for
Concessional Lending to Low-Income Countries
Executive Board Meeting 10/24
March 17, 2010

Executive Directors welcomed the opportunity to consider the proposed new framework for mobilizing bilateral loan contributions to finance the Fund's concessional lending to low-income countries (LICs). Directors underscored the urgency of securing new loan resources to ensure that the Fund remains in a position to meet low-income countries' needs. They welcomed the recent pledges of bilateral loan contributions and urged other members, including potential new lenders, to be forthcoming with additional contributions. Directors also emphasized that, in addition to securing the needed loan resources, efforts must continue to mobilize the targeted additional subsidy contributions.

Directors noted that the proposed loan framework seeks to address a number of issues that have been raised in discussions with potential lenders. These include the treatment of PRGT loans as reserve assets, the availability of PRGT notes, the maturities and interest rate structure, the conversion of SDRs lent to the PRGT, and the safety of lending to the Trust. While some Directors expressed misgivings about some of the staff's recommendations, in particular those related to the use of SDRs for concessional financing, most Directors supported the proposals laid out in the staff paper.

Qualifying PRGT Loans as Reserve Assets

Most Directors supported the proposal to establish a voluntary "encashment" regime to enable outstanding PRGT loans to be *readily repayable* to lenders in case of balance of payments need. All new loan contributors would be encouraged to participate in the encashment regime and allow use of their resources to fund encashment in the unlikely event of a request for encashment by one or more lenders. Directors generally supported staff's assessment that a liquidity buffer of 20 percent of outstanding loans from participating contributors would appear sufficient to support such an encashment regime. As a consequence, total loan resources of about SDR 10.8 billion would need to be mobilized to meet the projected loan demand through 2014. Some Directors questioned the need for a substantial liquidity buffer, given the expectation of only infrequent encashments and the importance of ensuring adequate funds for lending to LICs.

Issuance of PRGT Notes

Directors noted the preference of some members to purchase notes from the PRGT as an alternative to traditional loans. They agreed that this could be accommodated by establishing a framework to allow the Trust to issue notes to interested lenders under Note Purchase Agreements, similar to the framework for note issuance under the GRA. Directors also agreed that PRGT loans and notes should carry the same financial terms, and could both participate in the proposed encashment regime.

Maturities and Interest Rates

Directors observed that some members would like to have the option to lend to the PRGT for shorter maturities than under traditional loan agreements. To accommodate these preferences, most Directors agreed that PRGT borrowing could be structured to provide for shorter maturities, of say one year, provided that the Fund, as Trustee of the PRGT, would have the discretion to unilaterally extend the maturity for additional periods up to 10 years.

Most Directors agreed with the proposed differentiated approach to interest rates on PRGT loan/note purchase agreements. Under this approach, the Trust would pay the 3-month official SDR interest rate on a quarterly basis on borrowing in SDRs, while continuing to pay the derived 6-month SDR interest rate on borrowing in currencies on a semi-annual basis.

SDR Conversion

Directors discussed the options available for handling the conversion of SDRs lent to the PRGT under the voluntary SDR trading arrangements. A number of Directors favored Option 1 in the staff paper that would require countries lending SDRs to automatically buy them back for currencies on request by members receiving SDR disbursements from the PRGT, noting that this approach would promote fair burden sharing. Most Directors, however, expressed strong support for, or could go along with, Option 3 that would continue the current practice of handling SDR conversions from the PRGT in the same way as other requests to sell SDRs under the voluntary SDR trading arrangements, together with appropriate safeguards. These Directors noted that, under the current SDR voluntary trading arrangements, it is expected that members lending SDRs to the PRGT would likely end up buying most of the SDRs back over time. They welcomed the explicit statement made by most SDR lenders that they would stand ready to do so as requested under the voluntary trading arrangements. Directors also stressed that all SDR lenders would need to have voluntary arrangements with a sufficient capacity in place. Directors emphasized the need for greater transparency regarding information on SDR conversions and urged that such information be reported to the Board on a regular basis. Directors also supported a review of SDR conversions from the PRGT after one year. Some Directors looked forward to a broader discussion of the role of the SDR as part of the upcoming consideration of the Fund's mandate.

Safety of Lending to the PRGT

Directors agreed that the Fund has maintained an excellent track record of repayment to Trust lenders and that the PRGT Reserve Account is expected to continue to provide adequate security to PRGT lenders/note purchasers. Nevertheless, pointing to the substantial increase in recent lending to LICs under the PRGT facilities, Directors stressed the importance of ensuring the safety of lending to the PRGT.

Next Steps

The Board had a productive discussion of the various issues and proposals provided in the staff paper, with most Directors agreeing to the proposed framework to facilitate mobilization of bilateral loan contributions. Staff will prepare a follow-up paper with proposed decisions, including amendments of the PRGT Instrument, for adoption by the Executive Board. We will then seek consents from existing PRGT lenders to make the proposed amendments effective expeditiously.