

**EXECUTIVE
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To: Members of the Executive Board

From: The Secretary

Subject: **Policy Safeguards for Countries Seeking Access to Fund Financial Support
that Would Lead to High Levels of Combined GRA–PRGT Exposure—
Proposed Decision**

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

Tentative Board Date: **Wednesday, September 9, 2020**

Questions: Ms. Kwak, LEG (ext. 37705)
Ms. Rosenberg, LEG (ext. 37790)



September 1, 2020

POLICY SAFEGUARDS FOR COUNTRIES SEEKING ACCESS TO FUND FINANCIAL SUPPORT THAT WOULD LEAD TO HIGH LEVELS OF COMBINED GRA-PRGT EXPOSURE—PROPOSED DECISION

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SUMMARY OF THE PROPOSED DECISION

This supplement sets forth the proposed decision that implements the proposal in the main paper, *Policy Safeguards for Countries Seeking Access to Fund Financial Support that Would Lead to High Levels of Combined GRA-PRGT Exposure* (SM/20/137).

The decision implements the staff proposal as follows:

- It establishes annual and cumulative thresholds for high combined credit from the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT) (the “HCC Thresholds”) (paragraph 2) above which certain substantive and procedural requirements would have to be satisfied. These requirements are set forth in paragraphs 3 and 4, respectively.¹
- It sets forth rules for cases where combined access not only exceeds the HCC Thresholds but also constitutes exceptional access under the GRA and/or exceptional access or high access under the PRGT (paragraph 5).²
- The new framework is applicable to new financing requests **approved after the adoption** of the new policy, which would exceed any of the HCC Thresholds (Paragraph 1). Specifically, the new framework will apply to the following requests:
 - (i) new GRA and/or PRGT arrangements;
 - (ii) augmentation of access under a new arrangement or an arrangement already in place at the time of the effectiveness of this policy;
 - (iii) new financing under the Rapid Credit Facility or the Rapid Financing Instrument; and
 - (iv) rephasing of access under a new arrangement that causes the annual HCC threshold to be exceeded where the arrangement is previously not subject to the application of the new policy.

The policy will not apply to access to GRA or PRGT resources approved under arrangements in place before the effectiveness of the new policy, including a rephasing of access under such an arrangement that is approved after the adoption of the new policy (grandfathering).³

¹ Paragraph 6 addresses the issue of GRA purchases limited to the first credit tranche. As noted in Footnote 7 of the main paper, the proposed policy safeguards for combined PRGT and GRA credit are not intended to apply to access to GRA resources that is limited to the first credit tranche.

² See paragraph 10 and Annex I of the main paper (SM/20/137).

³ See paragraph 11 and Footnote 22 of the main paper (SM/20/137). The grandfathering is achieved by not including such arrangements in the scope of paragraph 1.

Proposed Decision

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

1. Subject to paragraphs 5 and 6 below, and with a view to enhancing safeguards for the use of resources in the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT), respectively, the Fund will not approve any of the following financing requests in the GRA or under the PRGT in an amount above the High Combined GRA and PRGT Credit Thresholds defined in paragraph 2 below, unless it is satisfied that the criteria set forth in paragraph 3 below and the procedural requirements set forth in paragraph 4 below are met:

- (i) a new arrangement in the GRA or under the PRGT;
- (ii) a purchase under the Rapid Financing Instrument (RFI) or a loan under the Rapid Credit Facility (RCF);
- (iii) an augmentation of access under an arrangement in the GRA or under the PRGT; or
- (iv) a rephasing of scheduled purchases or disbursements under an arrangement approved after [insert date of Board approval of the new policy] when access under the arrangement has not previously exceeded the thresholds specified in paragraph 2.

2. For the purpose of this Decision, High Combined GRA and PRGT Credit (hereinafter "HCC") arises when a member's annual or cumulative access (net of scheduled repurchases and repayments) to the sum of resources in the GRA and under the PRGT exceeds, in quota terms, the equivalent of the annual or the cumulative limit (net of scheduled repurchases) applicable to the access by members to GRA resources set forth in paragraph 2 of Decision No. 14064-(08/18), adopted February 22, 2008, as amended (hereinafter the "HCC Thresholds"). The HCC Thresholds shall adjust

automatically to any changes in the access limits set forth in Decision No. 14064-(08/18), adopted February 22, 2008, as amended (hereinafter, the “GRA Access Decision”).

3. Subject to paragraph 5 below, the criteria that must be satisfied for purposes of paragraph 1 of this Decision are as follows:

(a) The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met without giving rise to access in excess of the HCC Thresholds.

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

A. For members subject to the Bank-Fund Debt Sustainability Framework for Low-Income Countries (the “LIC-DSF”):

- I. A rigorous and systematic analysis indicates that there is a high probability that the member’s public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF to be at low or moderate overall risk of public debt distress; or
- II. Where the member’s public debt is assessed to be sustainable but not with high probability (which includes cases where the member’s overall risk of public debt distress is assessed to be high or in debt distress), or where the member’s debt is

assessed to be unsustainable ex ante, access to resources in excess of the HCC Thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (generally considered to be met for countries that are assessed under the LIC-DSF to be at low or moderate overall risk of public debt distress) (i) within 36 months from Board approval in the case of a new Fund arrangement, purchase under the RFI or loan under the RCF, or within the period of the new arrangement, whichever is longer, or (ii) within the remaining period of an arrangement, in cases where the Board approves a request for an augmentation or a rephasing of access under the arrangement.

- B. For members subject to assessments of debt sustainability under the Debt Sustainability Framework for Market Access Countries, this criterion will be met where a rigorous and systematic analysis indicates that the same debt sustainability requirements that apply to exceptional access in the GRA, set forth in paragraph 3(b) of the GRA Access Decision and in BUFF/16/9 (1/27/2016), are met.

- (c) The member's policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

4. Subject to paragraph 5 below, the procedural requirements regarding Board consultations, staff reports and ex-post evaluations as set forth in Annex I of SM/20/137 shall apply to cases involving access in excess of the HCC Thresholds.

5. In cases involving access above the HCC Thresholds and exceptional access to GRA resources and/or high access or exceptional access to PRGT resources, the following shall apply:

(a) Where in the context of a financing request specified in paragraph 1, a member's combined access to resources in the GRA and under the PRGT would exceed any of the HCC Thresholds, and the GRA portion of such access would also exceed the annual or cumulative access limit to GRA resources, the criteria set forth in paragraph 3 of this Decision shall not apply and the criteria applicable to exceptional access to GRA resources set forth in paragraph 3 of the GRA Access Decision (the "GRA Criteria") shall apply; the procedural requirements set forth in paragraph 4 of this Decision and the procedural requirements for exceptional access in the GRA shall both apply in such cases.

(b) Where in the context of a financing request specified in paragraph 1, a member's combined access to resources in the GRA and under the PRGT would exceed any of the HCC thresholds and the PRGT portion of such access would also exceed the normal annual or cumulative access limit to PRGT resources, the criteria set forth in paragraph 3 of this Decision shall apply, and the criteria set forth in Section II, Paragraph 2(a) of the PRGT Instrument annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended (the "PRGT Criteria") shall also apply for access to PRGT resources above the PRGT normal access limits. In such cases, the procedural requirements set

forth in paragraph 4 of this Decision and the procedural requirements for exceptional access to PRGT resources shall both apply.

(c) Where in the context of a financing request specified in paragraph 1, a member's combined access to resources in the GRA and under the PRGT would exceed any of the HCC Thresholds and also the respective annual or cumulative access limits in the GRA and under the PRGT, the criteria set forth in paragraph 3 of this Decision shall not apply, and the GRA criteria shall apply, in addition to the application of the PRGT criteria for access to PRGT resources above the PRGT normal access limit. In such cases, the procedural requirements set forth in paragraph 4 of this Decision shall not apply, and both the procedural requirements for exceptional access in the GRA and for exceptional access to PRGT resources shall apply, respectively.

(d) Where in the context of a financing request specified in paragraph 1, a member's combined access to resources in the GRA and under the PRGT would exceed any of the HCC Thresholds and also the thresholds that give rise to high access in the PRGT, the criteria set forth in paragraph 3 of this Decision shall apply, and the procedural requirements for high access in the PRGT and the procedural requirements set forth in paragraph 4 of this Decision shall also apply.

6. Access to GRA resources that is limited to the first credit tranche in the GRA shall not be included in calculating the HCC thresholds.