

**LAPSE OF
TIME**

EBS/20/192

December 18, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Modifying the Poverty Reduction and Growth Trust Cumulative Borrowing Limit**

Board Action: Executive Directors' **consideration** on a lapse of time basis

Deadline to Request a Board Meeting, after which Proposed Decision Deemed Approved: **Wednesday, January 6, 2021
12:00 p.m. (noon)**

Proposed Decision: Page 6

Publication: Not proposed, as paper contains sensitive information.

Questions: Mr. Mumssen, FIN (ext. 35623)
Ms. Gust, FIN (ext. 36573)
Ms. Rahman-Garrett, FIN (ext. 36686)
Ms. Rosha, LEG (ext. 38066)



December 18, 2020

MODIFYING THE POVERTY REDUCTION AND GROWTH TRUST (PRGT) CUMULATIVE BORROWING LIMIT

EXECUTIVE SUMMARY

An urgent effort to mobilize SDR 12.5 billion in additional Poverty Reduction and Growth Trust (PRGT) loan resources was launched in April 2020 to meet the unprecedented surge in demand for concessional resources caused by the COVID-19 pandemic. To date, SDR 16.9 billion in formal pledges have been secured, with SDR 11.1 billion in new loan resources already effective under new and augmented loan and note purchase agreements. To accommodate all bilateral pledges secured so far, the PRGT's cumulative borrowing limit would need to be increased. This paper includes a proposed decision for the Board's approval to increase the PRGT cumulative borrowing limit from SDR 50.5 billion to SDR 55.5 billion. Existing PRGT creditors were consulted and broadly support this proposal.

Approved By
**Andrew Tweedie and
Rhoda Weeks-Brown**

Prepared by the Finance and Legal Departments

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BACKGROUND

1. **The Fund's concessional lending framework relies on periodic mobilization of PRGT loan resources from bilateral lenders.**¹ These loan resources are available to be on-lent to PRGT-eligible borrowers, depending on demand, and repaid to bilateral lenders upon maturity.
2. **To meet the surge in demand for concessional resources caused by the COVID-19 crisis, the Fund has launched an urgent PRGT loan mobilization round.** In April 2020, the Board raised the cumulative PRGT borrowing limit by SDR 12.5 billion (from SDR 38 billion to SDR 50.5 billion) to make room for new or augmented bilateral borrowing agreements.² This paper proposes a further increase in the borrowing limit to allow the Fund to sign into effect all loan agreements that bilateral lenders have pledged to date.³ Staff has consulted with PRGT lenders and found broad support for the proposed increase in the borrowing limit.

UPDATE ON PRGT LOAN MOBILIZATION

3. **The fast-track loan mobilization effort launched in April 2020 has so far resulted in formal pledges of SDR 16.9 billion (Table 1).** Of these pledges, SDR 11.1 billion has already become effective from 10 bilateral lenders through traditional loan agreements, Note Purchase Agreements (NPAs), and augmentations of existing agreements. In addition, there are formal pledges of about SDR 5.8 billion, agreements for which could be finalized and become effective relatively quickly. These new resources, which add to the SDR 8.4 billion in available resources pre-crisis, are deemed to be adequate to cover demand under current policies for a number of years.⁴
4. **To accommodate all PRGT loan pledges secured so far, it would be necessary to increase the PRGT's cumulative borrowing limit again.** Formally pledged loan agreements from six members that are not yet signed into effect exceed the remaining space under the original loan mobilization target set in April 2020 by about SDR 4.5 billion.

¹ The IMF's concessional financing framework includes both loan and subsidy resources. Loan resources are generally remunerated at the SDR rate and, therefore, carry no interest cost to the lender, but lenders are free to offer lower rates. The PRGT's loans are provided to eligible low-income countries at a zero-interest rate. The cost of interest subsidization is covered by the Trust's subsidy resources. Under the self-sustained PRGT financing framework, subsidy resources are managed in an endowment, which has been set up to provide an average annual concessional lending capacity of SDR 1.25 billion.

² See *Modifying the Poverty Reduction and Growth Trust Cumulative Borrowing Limit*, EBS/20/53 and Decision No. 16748-(20/43), adopted April 14, 2020.

³ PRGT borrowing limits have been in place since 1989. Their role is to ensure that new PRGT borrowing would not take place without prior consultation with PRGT creditors regarding the justification for such borrowing and the adequacy of the PRGT Reserve Account. Authorization to raise the borrowing limit has been sought in the context of subsequent PRGT loan mobilization rounds. The cumulative borrowing limit includes all past loans, including loans that have been repaid, as well as loans that are outstanding.

⁴ At the October 2020 informal resource briefing, staff projected that low-income countries' demand for IMF concessional financing could reach SDR 12-22 billion in 2020-24 under current policies.

5. Staff therefore proposes to raise the cumulative PRGT borrowing limit from SDR 50.5 billion to SDR 55.5 billion.

This increase would revise up the loan mobilization target to SDR 17.5 billion, from the original target of SDR 12.5 billion agreed in April 2020. The proposed approach is similar to the last loan mobilization round in 2015–18, when the cumulative borrowing limit was increased beyond the initial target to accommodate the better-than-expected loan mobilization outcome and to also provide a small buffer.⁵

6. While providing a modest additional buffer, the proposed increase would not prejudice the outcome of the Review of Concessional Financing and Policies.

Increasing the PRGT borrowing limit would not by itself lead to higher levels of lending, which depends primarily on low-income countries' demand and the Fund's access policies. It would also not prejudice the outcome of the Review of Concessional Financing and Policies, which will provide the Board an opportunity to discuss the PRGT's broader resource needs. Increasing the limit would provide a more generous loan resource envelope. If these additional resources are not fully committed by end-2024, the agreements signed under the current round could be extended in line with previous practice.

**New PRGT Loan Resources
(As of December 9, 2020)**

Country	In millions of SDRs	In millions of US\$
Effective agreements (10)		
Japan ¹	3,600	5,173
France	2,000	2,874
UK	2,000	2,874
Spain	750	1,078
Australia	500	719
Brazil	500	719
Netherlands	500	719
Sweden	500	719
Norway	400	575
Belgium	350	503
Formal pledges (6)		
Germany ²	2,468	3,547
China	1,000	1,437
Italy	1,000	1,437
Canada	500	719
Switzerland	500	719
Denmark	300	431
Total	16,868	24,240
Target	SDR 12.5 bln	US\$17 bln

¹ To be available in two equal tranches.

² Euro 3,000 million at July 18, 2020 exchange rate.

7. Staff has consulted with existing loan providers through their Executive Directors' offices in recent weeks and has found broad support for the proposed increase in the cumulative PRGT borrowing limit. Several lenders underscored the importance of completing the review of concessional financing and the need to maintain adequate PRGT reserve coverage. As the proposed increase in the limit on bilateral loan agreements would not by itself lead to higher levels of lending under current policies, staff does not expect a material impact on the adequacy of the PRGT's reserve account in protecting the PRGT lenders against risk of payment arrears or credit losses.⁶ As noted in the Board paper in April 2020 on the request for the initial borrowing limit increase, reserve coverage protection is only one element of the Fund's multilayered credit risk management framework, which also relies on adequate program design, conditionality standards, access policies and charges, the cooperative strategy on overdue financial obligations, and the Fund's de facto preferred creditor status. Staff will continue to monitor closely developments in

⁵ See *Modifying the Poverty Reduction and Growth Trust Cumulative Borrowing Limit*, SM/17/354 and Decision No. 16323-(18/1), adopted January 8, 2018.

⁶ Based on staff's current projections, it is estimated that the reserve coverage ratio would temporarily decline to around 20 percent, and gradually recover from 2025 onward as the crisis-related lending is being repaid.

PRGT resources, including reserve coverage, and engage the Board on the broader review of concessional financing and policies early in 2021.

Proposed Decision

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

Amendment to PRGT Borrowing Limit

The Managing Director, having consulted with all creditors of the Poverty Reduction and Growth Trust (PRGT), is authorized to confirm that she does not intend to enter into borrowing agreements for the Loan Accounts of the PRGT if the cumulative commitments under such agreements exceed SDR 55.5 billion, except after consultation with all PRGT creditors regarding the justification for such additional borrowing and the adequacy of the PRGT's Reserve Account in relation thereto.