



IMF POLICY PAPER

FINANCING FOR DEVELOPMENT: ENHANCING THE FINANCIAL SAFETY NET FOR DEVELOPING COUNTRIES

July 2015

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 1, 2015 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on June 11, 2015 for the Executive Board's consideration on July 1, 2015.
- A **Staff Supplement**.

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IMF Executive Board Adopts Decisions to Enhance the Financial Safety Net for Developing Countries

The Executive Board of the International Monetary Fund (IMF), on July 1, 2015, adopted a set of proposals to enhance the access of developing countries to IMF financial support. These proposals, and the case for adopting them, are contained in the staff paper “*Financing for Development: Enhancing the Financial Safety Net for Developing Countries.*”

The staff paper makes proposals to strengthen the financial safety net for developing countries by increasing access to concessional Fund resources for all Poverty Reduction and Growth Trust (PRGT)-eligible countries and to fast-disbursing support under the Rapid Financing Instrument (RFI) for all members when faced with urgent balance of payments needs. Developing countries’ efforts to achieve sustained and inclusive growth remain vulnerable to global volatility in the form of external shocks, unpredictable sudden stops and reversals of capital inflows, and significant commodity price volatility. Enhanced access to Fund financing provides countries with greater flexibility to meet balance of payments needs as they pursue inclusive growth and poverty reduction.

The proposals aim to provide developing countries with greater access to Fund resources while better targeting access to concessional resources towards the poorest and most vulnerable countries. The proposals include: i) increasing access to Fund concessional resources for all countries eligible for the Fund’s PRGT; ii) rebalancing the mix of concessional to non-concessional financing towards more use of non-concessional resources for better-off PRGT-eligible countries that currently receive “blended” financial support from the Fund; iii) increasing access to fast-disbursing concessional and non-concessional resources for countries in fragile situations, hit by conflict, or natural disasters, and (iv) setting the interest rate on loans under the Rapid Credit Facility (RCF) at zero percent.

Executive Board Assessment¹

Executive Directors welcomed the opportunity to consider the staff's proposals to strengthen the financial safety net for developing countries. Directors concurred that developing countries' efforts to achieve sustainable and inclusive growth remain vulnerable to global volatility, and that enhanced access to Fund financing would provide these countries with greater flexibility to meet their balance-of-payments needs.

Directors broadly supported a set of proposals to: (i) enhance access to all concessional facilities; (ii) better target concessional financing to the poorest and most vulnerable members eligible for support from the Poverty Reduction and Growth Trust (PRGT), while also boosting access for better-positioned members through greater use of financing from the General Resources Account (GRA); (iii) complement increased access under the Rapid Credit Facility (RCF) for PRGT-eligible countries with a parallel increase of fast-disbursing support under the Rapid Financing Instrument (RFI) to assist all countries in fragile situations or hit by conflict or natural disasters; and (iv) to set the interest rate on RCF loans at zero percent. Directors emphasized the importance of safeguarding the self-sustaining nature of the PRGT. Some Directors noted that these proposals could have been more ambitious, and could have sought to mobilize additional PRGT subsidy resources, as well as go beyond focusing primarily on low-income countries.

On access, Directors broadly agreed that PRGT access norms and limits have eroded relative to economic indicators since these norms and limits were last increased in 2010. Accordingly, Directors supported raising all access norms, and annual and cumulative access limits, by 50 percent for the RCF, the Standby Credit Facility (SCF), and the Extended Credit Facility (ECF), in line with staff proposals. They noted that access norms or limits should not be considered an entitlement and that actual access should be determined on a case-by-case basis, guided by the current policy on determination of access. A number of Directors requested that staff give further thought to policy changes to more effectively assist small member countries affected by severe natural disasters and states in fragile situations.

Directors generally supported rebalancing the funding mix of concessional and non-concessional resources provided to countries that receive Fund support in the form of a blend of concessional and non-concessional resources from 1:1 to 1:2. Directors agreed that such rebalancing would help conserve scarce resources, is consistent with the self-sustainability of the PRGT financing framework, and is warranted in light of the significantly greater market access in some blender countries than had been previously envisaged. The need to ensure that the increase in blending is

¹ An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

consistent with limiting risks of higher borrowing costs and preserving countries' debt sustainability was underscored.

Directors broadly supported increasing the RFI annual and cumulative access limits in line with the increase in access limits for the RCF to enhance its usefulness in providing support to all members with urgent balance-of-payments needs. Many Directors agreed that, in blended cases, any purchases under the RFI should count toward the applicable RCF annual and cumulative limits to eliminate an anomaly in the current rules and guidelines that allows some PRGT-eligible countries to “double dip” in PRGT and GRA resources. Directors took note of the safeguards in place under the RCF and RFI to avoid Fund support of countries with continued weak policies and unwarranted diversion of demand away from upper credit tranche facilities. Some Directors cautioned about the risks of “facility shopping” and the scope for repeated use of the RCF, which has no ex post conditionality.

Directors generally agreed that, when the quota increases under the 14th General Review of Quotas (GRQ) come into effect, access limits and norms as a percentage of quota and the quota levels that determine the application of procedural safeguards would be reduced by half to broadly preserve the higher access in Special Drawing Rights (SDR) terms. A number of Directors had reservations about the automatic reduction in access norms and limits and argued in favor of delinking change in access levels from the date of effectiveness of the GRQ.

Directors broadly supported the proposal—intended to further enhance support for PRGT-eligible countries in fragile situations, or those affected by conflict or natural disasters—to make drawings under the RCF more concessional by setting the interest rate at zero percent, while preserving the PRGT interest rate mechanism for the SCF and ECF. They emphasized the importance of allowing this interest rate mechanism to function as intended to safeguard the self-sustaining capacity of the PRGT and, in this context, looked forward to the next review of the PRGT interest rate structure. A number of Directors noted potential risks from setting the RCF interest rate at zero, as it could set a precedent for other PRGT facilities, ultimately straining the self-sustainability of the PRGT.

With regard to the case for general and special allocations of SDRs as a mechanism for assisting developing countries, some Directors saw merit in exploring such allocations. Other Directors did not see a compelling case for SDR allocations, and noted that a general allocation must be guided by a long-term global need to supplement existing reserves assets.



FINANCING FOR DEVELOPMENT: ENHANCING THE FINANCIAL SAFETY NET FOR DEVELOPING COUNTRIES

June 11, 2015

EXECUTIVE SUMMARY

Access to Fund financial resources provides a financial safety net to help countries manage adverse shocks, acting as a potential supplement to foreign reserves when there is a balance of payments need. Such support is especially important to developing countries with limited capacity to borrow in domestic or foreign markets.

This paper proposes a set of measures that would expand access to Fund resources for developing countries, as one of the initiatives the Fund is undertaking as part of the wider effort of the international community to support countries in pursuing the post-2015 Sustainable Development Goals (SDGs).

The key measures include:

- a) Raising access norms, annual and cumulative normal access limits by 50 percent across the concessional facilities for all PRGT-eligible countries, addressing the erosion of access levels relative to trade, capital flows, and GDP since 2009–10;
- b) Rebalancing the funding mix of concessional to non-concessional financing under blended arrangements from 1:1 to 1:2 for PRGT-eligible countries that receive financial support from the Fund in the form of a blend of concessional and non-concessional financing, recognizing that these countries typically have significantly greater access to market funding than envisaged when the current facilities were established; and
- c) Increasing access to fast-disbursing support under the RCF (to PRGT-eligible countries) and RFI (to all member countries) to assist countries in fragile situations, hit by conflict, or natural disasters; and increasing the level of concessionality of such support to PRGT-eligible countries by setting the interest rate on RCF loans at zero percent.

PRGT-eligible countries are those eligible to receive concessional financing from the Poverty Reduction and Growth Trust (currently 73 in number).

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Acronyms and Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EPCA	Emergency Post Conflict Assistance
ENDA	Emergency Natural Disaster Assistance
ESF	Exogenous Shocks Facility
ESF-HAC	Exogenous Shocks Facility-High Access Component
ESF-RAC	Exogenous Shocks Facility-Rapid Access Component
FfD	Financing for Development
FIN	Finance Department
FS	Fragile States
GRA	General Resources Account
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
LICs	Low-Income Countries
MDB	Multilateral Development Bank
OCR	Ordinary Capital Resources
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SBA	Stand-By Arrangement
SCF	Standby Credit Facility
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
UCT	Upper Credit Tranche
WEO	World Economic Outlook

INTRODUCTION

1. Against the backdrop of the upcoming July 2015 United Nations Conference on Financing for Development (FfD), this paper makes proposals to strengthen the financial safety net for developing countries by increasing their access to Fund resources when faced with pressing balance of payments needs.¹ Developing countries' efforts to achieve sustainable and inclusive growth remain vulnerable to global volatility in the form of external shocks, unpredictable sudden stops and reversals of capital inflows, and significant commodity price volatility. Enhanced access to Fund financing would provide them with greater flexibility to meet balance of payments needs as they pursue inclusive growth and poverty reduction, and ease the pressure to tie up costly resources in low-yielding reserves. The changes proposed here focus on changes to current parameters in the Fund's concessional facilities. The paper does not seek to provide a comprehensive review of concessional facilities; it is currently envisaged that such a review would take place in 2018, five years after the last such review.

2. Building on the comprehensive reform of financing facilities to low-income countries (LICs) in 2009, the paper proposes a set of measures that are collectively consistent with maintaining the self-financing nature of the Fund's concessional lending over the long term:

- Expand the norms and limits for access to all concessional facilities, broadly returning them to levels set in the 2009 reforms relative to production, trade, and capital flows.
- Target concessional financing to support the poorest and most vulnerable PRGT-eligible members.² Better-positioned PRGT-eligible countries, which receive blended Fund financial support (a mix of PRGT and GRA resources), would also have significantly higher access to Fund resources, but a higher share of these resources would be provided on General Resources Account (GRA) terms. This rebalancing of the form of support provided takes cognizance of the fact that these countries have increasing access to international capital markets.
- Increase access to fast-disbursing support under the RCF (to PRGT-eligible countries) and RFI (to all member countries) to assist countries in fragile situations, hit by conflict, or natural disasters; and increase the level of concessionality of such support to PRGT-eligible countries by setting the interest rate on RCF loans at zero percent.
- Finally, the paper considers whether the case can be made for a general allocation of Special Drawing Rights (SDRs) or, pursuant to an amendment of the Articles of Agreement, a special allocation of SDRs to boost development financing. It concludes that the SDR is not the right

¹ Developing countries are all countries not classified as advanced economies in the IMF *World Economic Outlook*.

² The poorest and most vulnerable are defined as countries with a gross national income (GNI) below the International Development Association GNI threshold of US\$1,215 and without market access as well as other PRGT-eligible countries at a high risk of debt distress or in debt distress (see Annex I Table 1 for a country listing).

instrument for this purpose given its role as a reserve asset intended to facilitate international liquidity.

3. The paper is organized as follows: The next section summarizes recent reforms to the Poverty Reduction and Growth Trust (PRGT) facilities. An update on recent experience of usage of these facilities is provided in the next section. The main section of the paper develops the case for the changes being proposed. A final section assesses the impact of these proposed changes on the sustainability of the PRG Trust. The paper concludes with a list of issues for consideration by the Executive Board.

RECENT REFORMS TO CONCESSIONAL FINANCING FACILITIES

4. The architecture of LIC facilities was overhauled in 2009, yielding three facilities (ECF/SCF/RCF), each with distinct purposes tailored to the diverse needs of LICs.³ These changes were accompanied by a financing package that doubled the lending capacity of the PRGT for 2009–14 to meet members' elevated financing needs in the wake of the global financial crisis.

- The Extended Credit Facility (ECF) replaced the Poverty Reduction and Growth Facility (PRGF) as the main tool for providing medium-term support to address protracted balance of payments problems.
- The Standby Credit Facility (SCF) provides support to LICs with short-term balance of payments needs, akin to that provided under the Stand-By Arrangement (SBA), with the possibility for countries facing potential balance of payments needs to use it on a precautionary basis.
- The Rapid Credit Facility (RCF) provides fast-disbursing financing with limited conditionality to meet urgent balance of payments needs arising from exogenous shocks, natural disasters, and other fragile or emergency situations.

5. A review of experience with the new facilities in 2012–13 concluded that they had achieved their objective of closing gaps in the financing toolkit, creating a streamlined architecture of facilities that is better tailored to the diverse needs of LICs.⁴ Reforms introduced as a result of this review included: a) enhanced use of blending of concessional and non-concessional financing; b) scope for augmentations of access under ECF and SCF arrangements between scheduled reviews; and c) a higher cumulative access limit under the RCF.

6. A new interest rate mechanism was introduced as part of the 2009 reforms to enhance the concessionality of Fund lending. The mechanism links the interest rates paid on PRGT credit to

³ See IMF (2009c) and (2009d)

⁴ See IMF (2012b), (2012c), and (2013b).

the SDR interest rate, based on biennial reviews, reducing the fluctuation of the grant element from changes to world interest rates. Additionally, exceptional temporary interest relief—zero percent interest on all outstanding concessional credit—was adopted to assist LICs during the global crisis. As the legacy of the financial crisis lingered, three extensions of the interest waiver have been approved, with the current waiver to expire at end-2016.⁵

7. A strategy to make the PRGT financially sustainable over the long term was approved in 2012.⁶ It rests on three pillars: (i) a base envelope of SDR 1¼ billion in annual lending capacity; (ii) contingent measures—including bilateral fundraising efforts and suspension of reimbursement of the GRA for PRGT administrative expenses—which can be activated when average financing needs exceed the base envelope by a substantial margin for an extended period; and (iii) the expectation that all modifications to LIC facilities would be designed in a manner that is consistent with maintaining self-sustainability. This strategy is expected to be robust under a wide range of demand scenarios for the short, medium, and longer term.

RECENT EXPERIENCE WITH CONCESSIONAL FINANCING FACILITIES

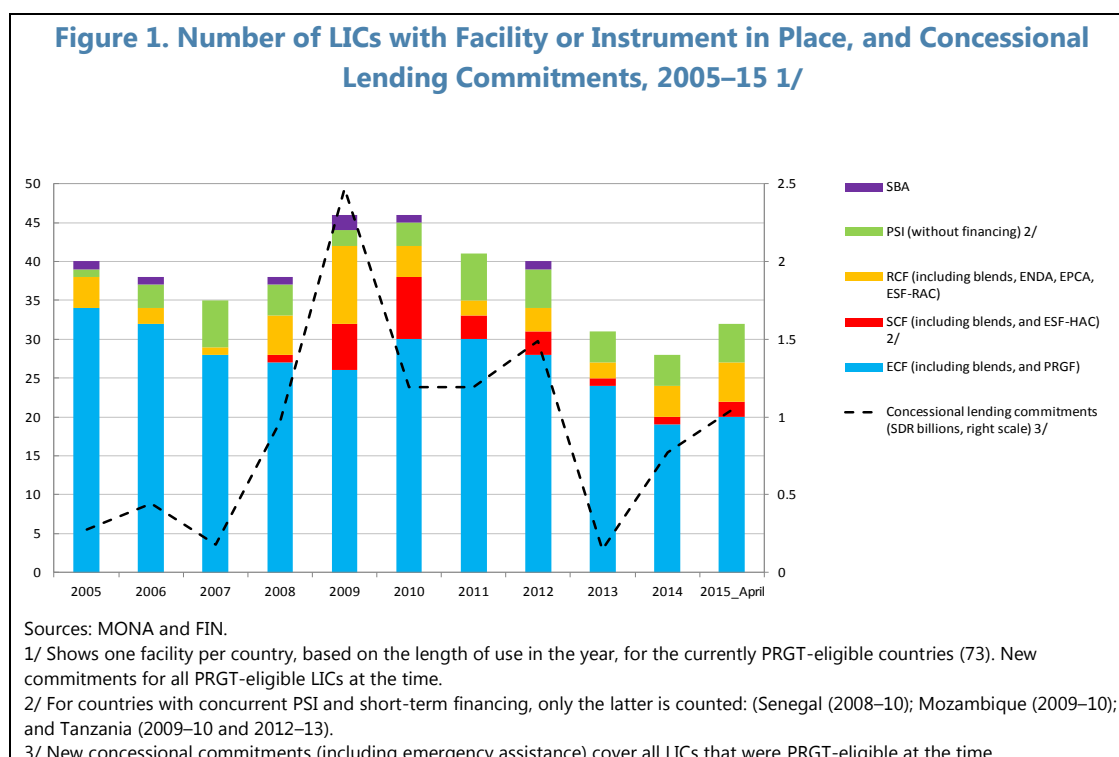
A. Trends in the Use of PRGT Resources

8. Demand for Fund concessional financing has been subject to large swings. In the period 2009–14, annual concessional commitments averaged SDR 1.21 billion, peaking in 2009 at SDR 2.47 billion and hitting a low of SDR 0.15 billion in 2013.⁷ Commitments in 2015 are expected to increase significantly on 2014, reflecting some sizeable new Fund-supported programs. The number of PRGT-eligible members with a Fund-supported program in place has declined from over 40 (2009–12) to about 30 (2013–15) as members exited from medium-term Fund support initiated in the post-crisis period (Figure 1).

⁵ See IMF (2011b), (2012f), and (2014b).

⁶ See IMF (2012d) and (2012e).

⁷ For details, see IMF (2015a).



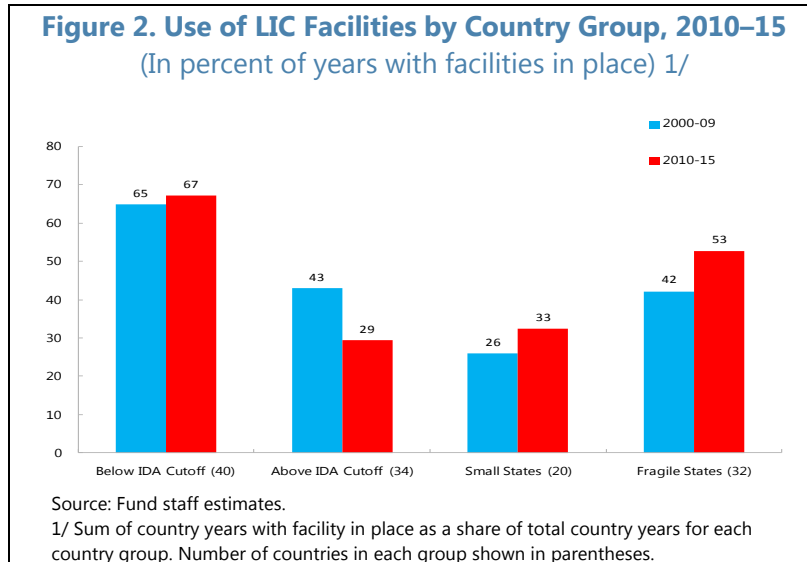
9. The nature of Fund support to LICs continues to be differentiated according to members' needs:

- The ECF continues to be the workhorse facility for LIC support, accounting for about two-thirds of the country cases in which Fund financial support is provided.
- Usage of the SCF has been somewhat more volatile. Nonetheless, total commitments under six precautionary SCF and SCF/SBA blended arrangements amounted to SDR 1.15 billion, with only one request to draw financing under these arrangements.
- The Fund's program engagement since the 2008–09 global financial crisis has remained elevated in LICs in fragile situations (Figure 2). Fund financial support has been provided to at least half of the countries in this group in each of the past five years, either through the RCF or the ECF, playing a catalytic role in mobilizing additional resources.⁸ Staff work on the Fund's engagement with countries in fragile situations (2011–12) concluded that repeated use of the RCF in such engagement would be desirable in situations where pressing balance of payments needs warranted financial support but the capacity to design or implement an ECF arrangement was not yet in place.⁹

⁸ See IMF (2015b), for further discussion of FS engagement.

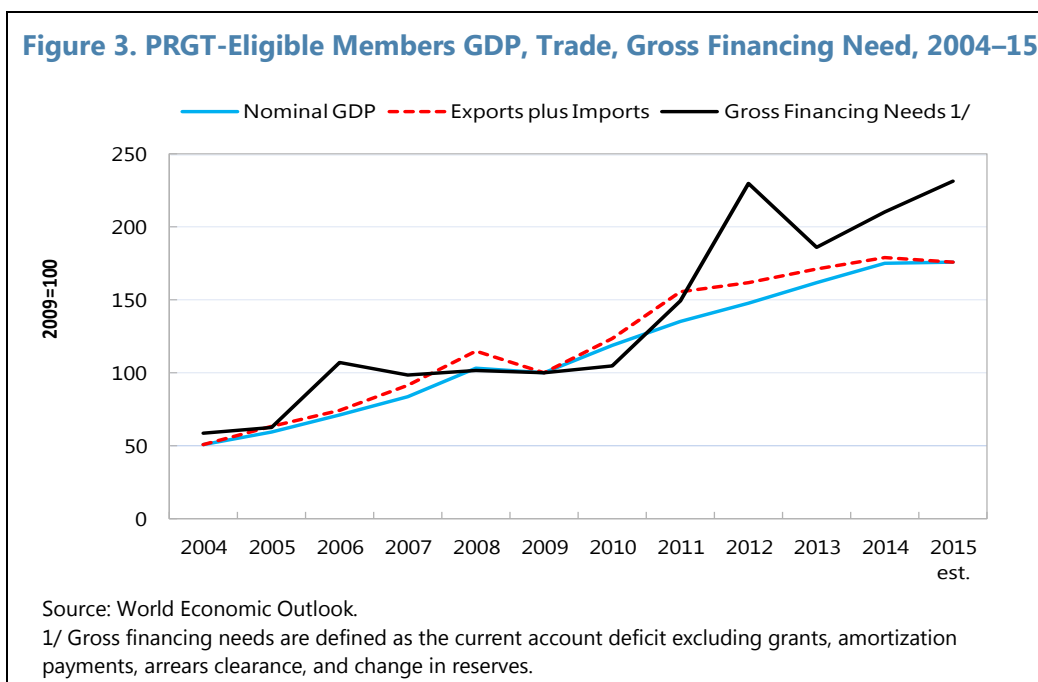
⁹ See IMF (2011a) and IMF (2012a).

- Fund financial support to the poorest and most vulnerable PRGT-eligible members have accounted for 60 percent of PRGT commitments since 2010. These members typically have limited access to domestic and external market financing sources, rely significantly on foreign aid, and face longer-term structural external payments imbalances.



B. Evolution of Access Norms and Limits

10. Most PRGT-eligible countries have experienced robust growth since the global crisis, supported by generally sound policies, buoyant external demand from emerging markets, and greater risk appetite by global investors. GDP and trade expanded at an annual average rate of 10 percent (nominal US\$ terms) while gross financing needs (current account balance excluding grants, amortization, arrears clearance, and gross reserve accumulation) expanded at 15 percent annually as countries borrowed more to support economic expansion (Figure 3).

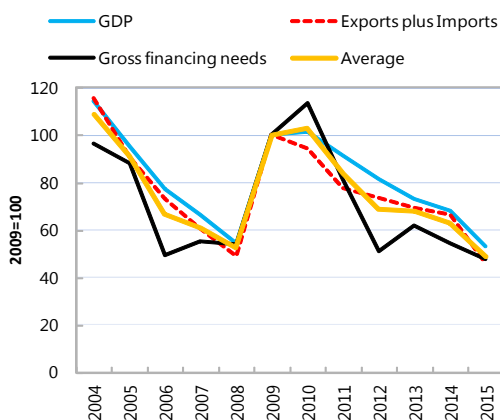


11. PRGT access norms and limits have steadily eroded relative to economic indicators of need since access increases in 2009–10, and have now broadly returned to the historically low levels prevalent in the run-up to the crisis in 2008. Norms on access to resources have declined by 40–50 percent on average in relation to the metrics of GDP, trade, and gross financing needs through 2015 (Figures 4 and 5). The cumulative erosion of annual access limits for the RCF has been more significant than for the ECF because the 2009 doubling of access limits did not apply to the precursor emergency financing instrument to the RCF (subsidized assistance for Emergency Post-Conflict Assistance (EPCA), Emergency Natural Disasters Assistance (ENDAs), and the Rapid Access Component of the Exogenous Shocks Facility (ESF-RAC)).¹⁰ Hence, the cumulative RCF access erosion since 2004 vis-à-vis the standard economic metrics is on the order of two-thirds (Figure 6).¹¹

¹⁰ See IMF (2009a). From September 2008, the Exogenous Shocks Facility-Rapid Access Component (ESF-RAC) allowed for two drawings of up to 25 percent of quota in any five year period, allowing potentially two drawings totaling 50 percent in a 12-month period. This is broadly equivalent to the provisions of the RCF, which permits 50 percent of quota in any 12-month period under the exogenous shocks window.

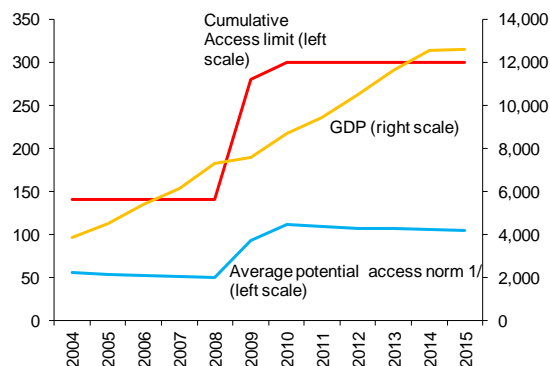
¹¹ In 2013, the cumulative access limit for the RCF was increased from 75 to 100 percent of quota, reflecting the intent to expand use of the RCF, where warranted, as a tool to support states in fragile situations; in the case of “shocks window” of the RCF, the cumulative access limit was increased from 100 to 125 percent of quota. Comparisons of similar longitude for the SCF are not possible, as its precursor, the Exogenous Shocks Facility-High Access Component (ESF-HAC), came into existence only in 2008.

Figure 4. Index of Quota Based ECF Access Norm Relative to Economic Indicators, 2004–15 1/



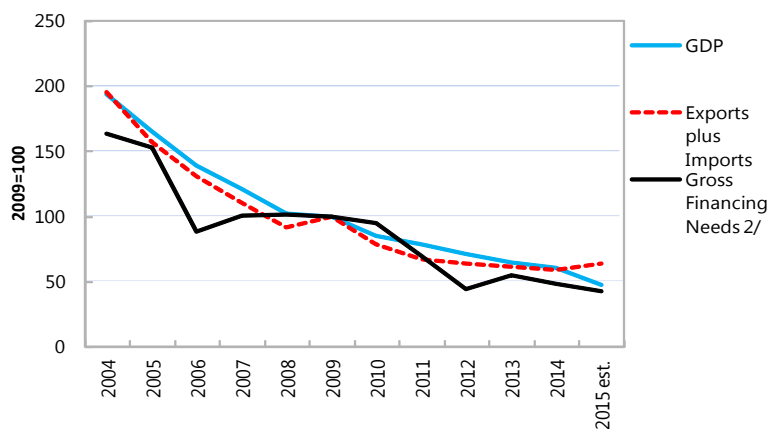
Sources: WEO and Fund staff estimates.
 1/ Gross financing needs are defined as the current account deficit excluding grants, amortization payments, arrears clearance, and change in reserves. Average is the simple average of GDP, exports plus imports, and gross financing needs.

Figure 5. Access Limits, Norms, and GDP (In percent of current quota)



Sources: WEO and Fund staff estimates.
 1/ Unweighted mean of the relevant ECF access norm available to each PRGT-eligible country based on the existing policies.

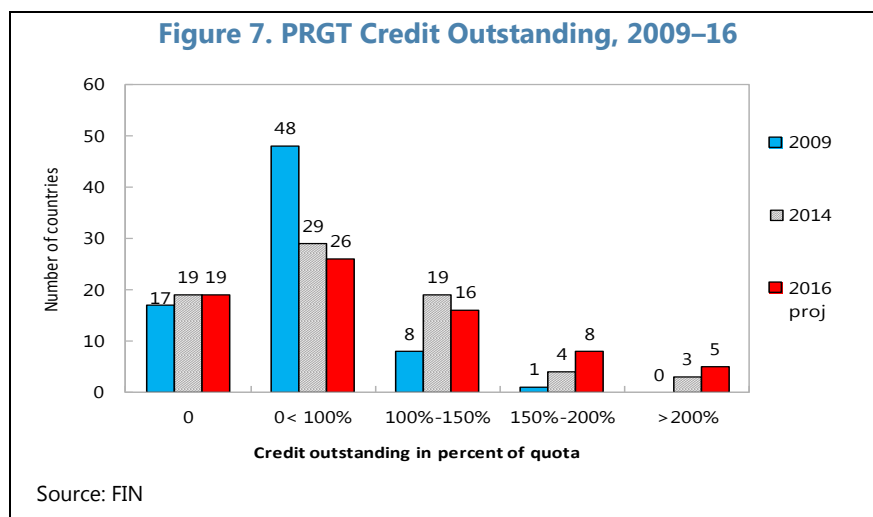
Figure 6. Index of Quota Based RCF Annual Access Limits Relative to Economic Indicators, 2004–15 1/



Sources: WEO and Fund staff estimates.
 1/ GDP-weighted index of EPCA/RCF-normal usage annual limit (25 percent of quota) and ENDA/RCF-shock window usage annual limit (50 percent of quota) in relation to demand indicators.
 2/ Gross financing grants, amortization payments, arrears clearance, and change in reserves.

12. Reflecting continued use of concessional financing, some members' PRGT credit outstanding is expected to rise towards the cumulative PRGT access limit of 300 percent of quota (Figure 7). At end-2009, only one member had credit outstanding greater than 150 percent of quota and none above 200 percent of quota. Based on the current lending framework, expected

repayments, and disbursements in 2015–16, by end-2016 some 13 members’ PRGT credit outstanding will be above 150 percent of quota and five above 200 percent of quota. This situation would significantly constrain access under new arrangements, as was flagged in the 2012–13 review of facilities for LICs (p. 23).



REFORM PROPOSALS

A. Boosting and Rebalancing Access to Fund Resources for PRGT-eligible Countries

The following changes to access norms and limits and the blending mix are proposed:

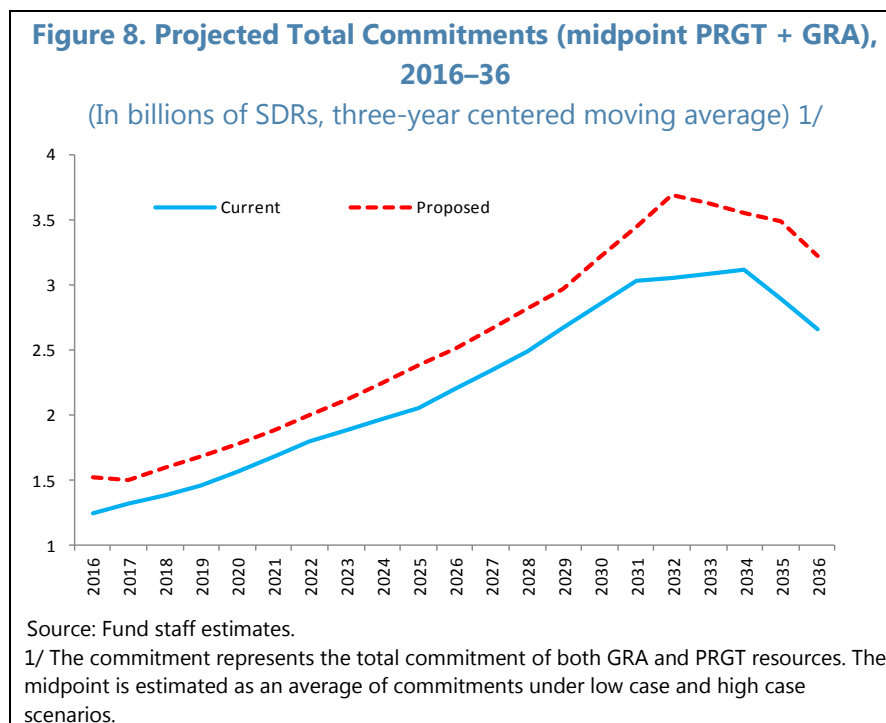
Boost access by raising norms, annual and cumulative normal access limits by one-half across all concessional facilities for all PRGT-eligible countries (details, including on the proposed increases in the quota-based thresholds that trigger procedural safeguards for high access PRGT financing requests, are shown in Annex 2). This would largely reverse the erosion of access levels relative to trade, capital flows and GDP since 2010.¹²

Rebalance the funding mix of concessional to non-concessional resources provided to blended arrangements from 1:1 to 1:2. This is in line with recent developments in “blender” countries, which typically have had significantly greater access to market funding than was envisaged in 2009.

13. The impact of boosting access levels available under PRGT facilities and rebalancing blending would provide a sharp increase in total Fund resources available to PRGT-eligible

¹² The difference in percent of quota between the normal and exceptional access limits will remain unchanged, i.e., annual and cumulative exceptional access limits are raised by the same amount as the corresponding normal access limits.

countries (Figure 8). The favorable impact on the poorest and most vulnerable is strongest since this expanded access comes entirely in the form of concessional resources. Those that blend will also benefit significantly through greater access to Fund resources, even if access under blended arrangements comes at a higher average cost (that is still modest relative to market terms). The proposals are also consistent with the self sustainability of the PRGT financing model, which envisaged an increase of access levels in SDR terms in line with future income and quota growth, resources permitting.¹³ The impact of the increases in norms and limits on demand and PRGT sustainability as a package with other proposals are discussed in the following section.

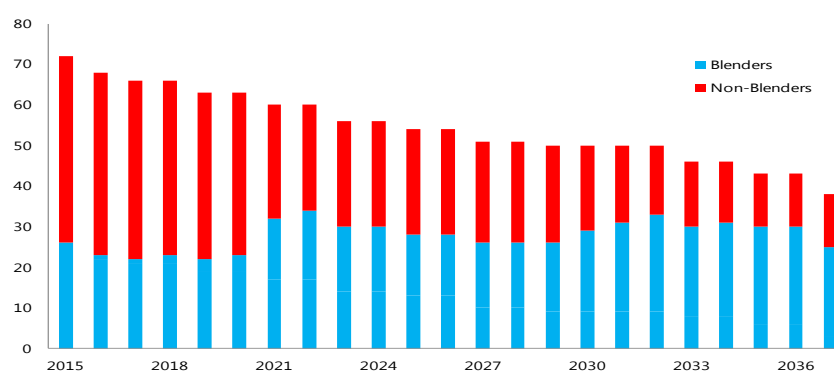


14. The increase in access to PRGT resources towards poorer/more vulnerable countries would be offset in large part by a rebalancing of access toward GRA resources for blenders.

This change would reduce the call on PRGT resources, particularly over the medium to long term as the share of PRGT-eligible members subject to blending is expected to increase (Figure 9). As a result, these proposals increase the Fund’s ability to meet members’ financing needs while preserving its scarce concessional resources. At the same time, more lending would come from the Fund’s balance sheet, i.e., the GRA.

¹³ The self sustained PRGT strategy envisaged access norms periodically increasing in line with nominal GDP, with increases offset through a periodic graduation of PRGT-eligible members through reviews of PRGT eligibility. See IMF (2013a).

Figure 9. Number of PRGT-Eligible Countries: Blenders and Non-Blenders, 2015–37 1/



Source: FIN

1. The number of countries presumed to blend in any year is increased by entry of non-blenders and reduced by the graduation from the PRGT eligibility.

15. The combination of higher access levels at higher average interest rates for countries with blended financing is in line with moves underway at other international financial institutions. The African Development Bank (AfDB) has decided to augment its lending on non-concessional terms to members eligible for concessional financing, subject to conditions such as creditworthiness. The World Bank already lends on hardened terms to better-off IDA eligible countries as they approach graduation (see Annex 3).

16. While it is proposed to increase access norms and limits, the amount of access in individual cases would remain guided by the current policy on determination of access. Access is determined on a case-by-case basis and guided by the following standards: (i) the member’s (present, prospective, and potential) balance of payment needs (taking into account all projected balance of payments flows, including reserve accumulation and financing from other sources); (ii) the strength of its program and capacity to repay the Fund (taking into account the member’s policy commitments, adjustment effort, institutional capacity, track record of policy implementation, debt sustainability, vulnerabilities, and other country circumstances); and (iii) the amount of outstanding Fund credit and the member’s record of past use of Fund credit.¹⁴

17. The current policy provides significant scope for flexibility around the “norms” to support strong programs by countries undertaking growth-oriented reforms and a scaling-up of investment spending. The access guidelines are expected to yield access below the norms in some instances and above the norms in others; *norms are neither a ceiling nor a floor nor an*

¹⁴ See Section II, Paragraph 2 (f) of Instrument to Establish the Poverty Reduction and Growth Trust (PRGT Instrument), Annex to Decision No. 8759-(87/176) ESAF, December 18, 1987, as amended.

entitlement.¹⁵ The sizeable gaps between norms and limits provide space for expanded balance of payments support for countries undertaking growth-oriented reforms, if justified by a staff assessment of likely growth impact, adequacy of measures to execute investment projects, and balance of payment needs. In exercising flexibility to scale up Fund support, due regard would need to be given to avoid imposing excessive strains on the financing capacity of the PRGT, which will continue to be reviewed annually by the Board in the context of the Update paper on the Fund's concessional financing assistance. In addition, the three-pillar strategy (paragraph 7) has safeguards aimed at ensuring that the Fund has the resources to meet the projected demand for concessional lending, including contingent measures that can be put in place when financing needs exceed lending capacity by a substantial margin for an extended period.

18. The proposed increase in access levels in SDR terms would be implemented immediately. To preserve the higher access in SDR terms going forward, it is proposed that the decision increasing the RCF, SCF, and ECF access limits also provides that these new limits (as a share of quota) would be reduced by one-half at the time when the general effectiveness conditions for quota increases under the 14th General Review of Quotas become effective (see Annex 2).

B. Enhanced Support Under the RFI and RCF

It is proposed that: a) access to the Rapid Financing Instrument (RFI) be increased by 50 percent, with a view to facilitating the provision of assistance to countries in fragile situations and/or affected by natural disasters; and b) that RCF terms be made more concessional through changes to the interest rate mechanism.

19. The Fund's rapid financing facilities have in recent years been used by members with urgent balance of payments needs arising from natural disasters, and by countries with such needs that are in fragile situations and are not in a position to meet Upper Credit Tranche (UCT) standard conditionality. FS constitute more than half of the usage of financing under the RCF, while small states hit by natural disasters account for another third. Typically, states in fragile situations have weaker institutions, considerably lower per capita income and growth rates, less diversified economic structures with large informal sectors, weaker governance and political stability, higher risk of internal violence, and are more susceptible to spillovers from neighboring countries' instabilities. These conditions have affected the modalities of Fund engagement, limiting their ability to effectively implement UCT programs.¹⁶ Outstanding RCF credit currently accounts for about 11 percent of total PRGT loans outstanding (SDR 6.2 billion).¹⁷ Future loan demand projections assume a share of about 15 percent. Meanwhile, the RFI has only been used twice, in both case as part of blended support for PRGT-eligible small states, but has recently elicited some interest from FS that are not PRGT-eligible.

¹⁵ With the notable exception that norms are a ceiling in the case of PRGT resources in a blended arrangement.

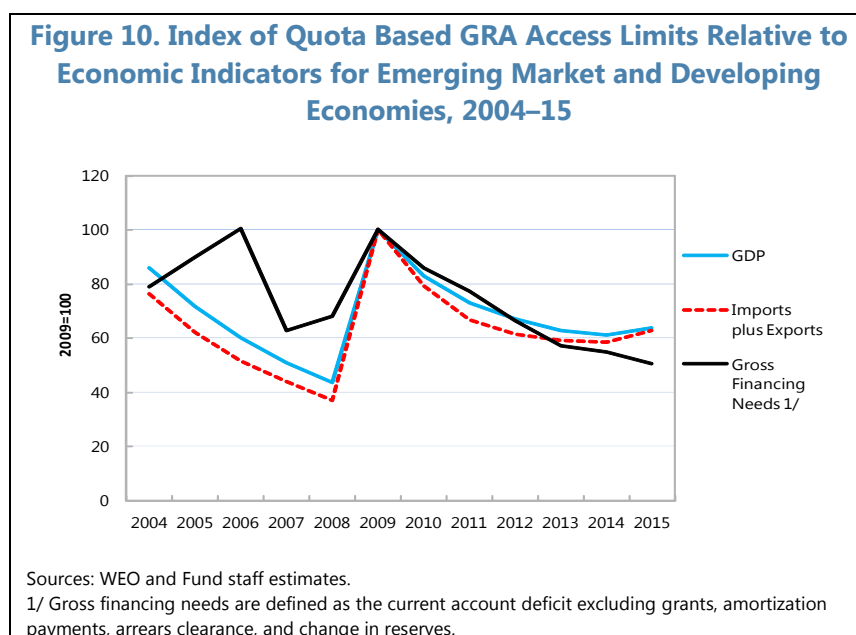
¹⁶ See IMF (2015b).

¹⁷ Including assistance provided under the RCF predecessor, the ESF-RAC.

RFI access limits

20. The proposals to boost and rebalance PRGT access would increase access limits for the RCF above those for the RFI. Specifically, the RCF cumulative access limit would rise to 150 percent of quota (compared to 100 percent for the RFI) and the annual limit under the exogenous shocks window would rise to 75 percent of quota (compared to 50 percent for the RFI).

21. Accordingly, staff proposes to raise RFI annual and cumulative limits by one half. This would ensure alignment with the RCF limits, while also broadly correcting for the erosion of access limits (Figure 10).¹⁸ Accordingly, the resulting new annual and cumulative access limits for the RFI would be 75 percent of quota annually and 150 percent of quota cumulatively, net of scheduled repurchases, pending the effectiveness of the quota increase under the 14th General Review.



22. Raising access limits for the RCF and RFI—non-UCT standard conditionality instruments— could raise questions of potential moral hazard and diversion of demand away from UCT to non-UCT instruments. An increase in access under the RFI might lower demand for the SBA, but the scale of any such move is likely to be modest, given that the SBA would typically continue to provide much higher access levels; annual access under the latter has averaged around 150 percent of quota (300 percent cumulative) since 2012. Moreover, the opportunity for “facilities shopping” needs to be balanced against the strong incentives for a UCT program: additional potential access level and considerably stronger signaling and catalytic effect of a UCT-quality program. Additionally, the size of Fund financing relative to the size of the shock in recent PRGT

¹⁸ In 2014, the Board had a preliminary discussion of GRA limits and surcharges, and how limits should adjust when the effectiveness conditions for the 14th review of quotas are met.

programs has been generally small enough not to warrant significant moral hazard concerns (Table 1).¹⁹

Type of Shock	Amount approved		Impact of Shock In percent of GDP
	In percent of quota	In percent of GDP	
Ebola	25	1.4	7.3
Commodity price drop 1/	25	0.5	0.7
Natural disaster	50	0.7	22.5
Political crisis	11	0.1	1.9

Source: Fund staff estimates.
 Note: Only shocks occurring in the period 2012–15 have been included. The estimated output impact refers to a yearly average, for main years of crisis impact.
 1/ Impact of shock expressed as residual financing need.

23. The proposed increase in RFI access levels in SDR terms would be implemented immediately; the increase in access levels, expressed as a share of quota would be partially unwound once the 14th review of quotas comes into effect, i.e., these new limits would be reduced by half at the time the general effectiveness conditions for quota increases under the 14th General Review of Quotas become effective.

24. Staff proposes to eliminate an anomaly in the current rules and guidelines that allows some PRGT-eligible countries to “double dip” in PRGT and GRA resources. In cases where use of the RCF or RFI is justified, PRGT-eligible countries may, in some circumstances, obtain support up to the maximum levels under both the RCF and the RFI, in effect obtaining double the access available to GRA-only countries. To address this anomaly, it is proposed that access to RFI assistance in blended RCF/RFI requests count towards the applicable RCF annual and cumulative limits; this will also help to address moral hazard concerns.

Amending the interest rate mechanism

25. To further enhance support for PRGT-eligible countries in fragile situations and those hit by natural disasters, it is proposed to modify the interest rate mechanism introduced in 2009 by setting the interest rate levied on RCF financing at zero (Table 2).

¹⁹ RCF and RFI have equivalent safeguards on repeated use (see IMF, 2009d and 2014a). Under the RFI, if a member has made a purchase under the RFI within the preceding three years, any additional purchases under the RFI may be approved only if the Fund is satisfied that (a) the member’s urgent balance of payments need was caused primarily by an exogenous shock; or (b) the member has established a track record of adequate macroeconomic policies over a period of at least six months immediately prior to the request.

Table 2. Current Interest Rate Mechanism for the Fund's Concessional Facilities 1/
(In percent)

	ECF	RCF	SCF
SDR rate < 2	0.00	0.00	0.25
2 ≤ SDR rate ≤ 5	0.25	0.25	0.50
SDR rate > 5	0.50	0.50	0.75

Source: FIN.

1/ Average SDR rate for the latest 12 months.

26. Interest relief on RCF financing would provide additional support to those countries with the most uncertain economic prospects. The estimated loss of interest income related to such relief, even when combined with the proposed increase in access, is on the order of SDR 40–60 million through 2030 (the target date for the SDGs), yielding a cumulative decline in self-sustained annual PRGT lending capacity of some SDR 12–18 million, depending in part on the assumed further path for SDR rates. In view of the modest additional cost to the PRGT, the proposed change to the rate setting mechanism would leave the self-sustained onward lending capacity target of SDR 1¼ billion intact and, therefore, be consistent with the three-pillar strategy of the self-sustaining PRGT.

27. A proposal to extend interest relief to all concessional facilities to 2030 would be costly and substantially erode the annual lending capacity of the PRGT. Depending on the evolution of SDR rates over the long term, the loss of interest income would be in the range of SDR 310–430 million as the interest subsidy element rises with the assumed increase in the SDR interest rate leading to a significant reduction of the self-sustained annual capacity by about SDR 100–140 million (equivalent to about 10 percent of the current lending capacity).

C. SDR Allocation

An SDR allocation targeted at supporting the financing needs of developing countries would first require a change in the IMF's Articles of Agreement: staff does not see sufficient support among the membership for a change in the Articles for such a purpose, which would require the support of three-fifths of the membership with 85 percent of the voting power.

28. General SDR Allocation: Under its Articles of Agreement, the Fund can decide to make a general allocation of SDRs, distributed to all members in proportion to their quotas.²⁰

- Such a decision has to be based on assessment that there is long-term global need to supplement existing reserve assets that will promote the attainment of the Fund's purposes and achieve specified global macroeconomic objectives.²¹

²⁰ For details on the conditions for a general SDR allocation, see IMF (2009b).

- There have been only three general SDR allocations in the Fund’s history. The last allocation was made in 2009, 30 years after the previous allocation; this allocation, made during the global financial crisis, filled an immediate expression of a long-term global need for reserves and had broad-based support.
- Proposals to link SDR allocations to the provision of development finance have been considered on several occasions: these proposals did not command the level of support needed to make the requisite changes to the Articles of Agreement.

29. Special SDR Allocation: The Fund can make a special allocation of SDRs, but only via a specific amendment to its Articles of Agreement.

- There has been only one special SDR allocation in the Fund’s history, undertaken via the Fourth Amendment of the IMF’s Articles of Agreement; the Executive Board approved the proposal in 1997 and the amendment came into effect in 2009 upon its approval by the membership. This one-time allocation allowed members to participate equitably in the SDR system even if they had joined the Fund after previous allocations had been made.²²
- Staff does not see a compelling basis for pursuing an amendment to the Articles of Agreement to generate a special SDR allocation targeted at developing countries. Fund support for members is likely to be used more effectively in circumstances where resources are provided in the context of Fund facilities rather than through unconditional use of SDRs—hence the focus in this paper on expanding access to Fund resources. Experience indicates that even if there were to be sufficient political support among the membership for such an Amendment, the time needed to achieve the required approvals of governments and legislatures would be very long indeed.

IMPACT OF PROPOSALS ON PRGT FINANCES

30. The combination of boosting and rebalancing access is consistent with the principle of the self-sustained PRGT. Annual PRGT loan demand would remain broadly unchanged relative to baseline projections before the policy change and, on average remain within the target for the PRGT’s self-sustained average annual lending capacity of SDR 1¼ billion under a broad range of demand scenarios (Table 3).²³ Somewhat higher loan demand initially would be offset by lower loan demand in outer years, as the proposed 50 percent increase in access levels would be compensated

²¹ The next such assessment is expected to take place in 2016.

²² Specifically, the reform raised the ratios of members’ cumulative SDR allocations relative to quota to a common benchmark ratio.

²³ The underlying assumptions for loan demand projections including those for blending and graduation are unchanged relative to previous staff projections. For a detailed description of assumptions underlying medium- to long-term loan demand projections and demand scenarios (see IMF, 2015a).

by a delay in built-in future access increases by about one year, and by a shift in the loan mix for blenders between PRGT and GRA resources from 1:1 to 1:2.

Table 3. Projected Average Annual Demand for PRGT Resources: Current and Proposed

	2016-25			2016-37		
	Low-case	Mid-point	High-case	Low-case	Mid-point	High-case
	(In billions of SDRs)					
Current 1/	0.86	1.14	1.43	1.12	1.49	1.87
Proposed	0.87	1.15	1.44	1.11	1.47	1.84

Source: FIN.

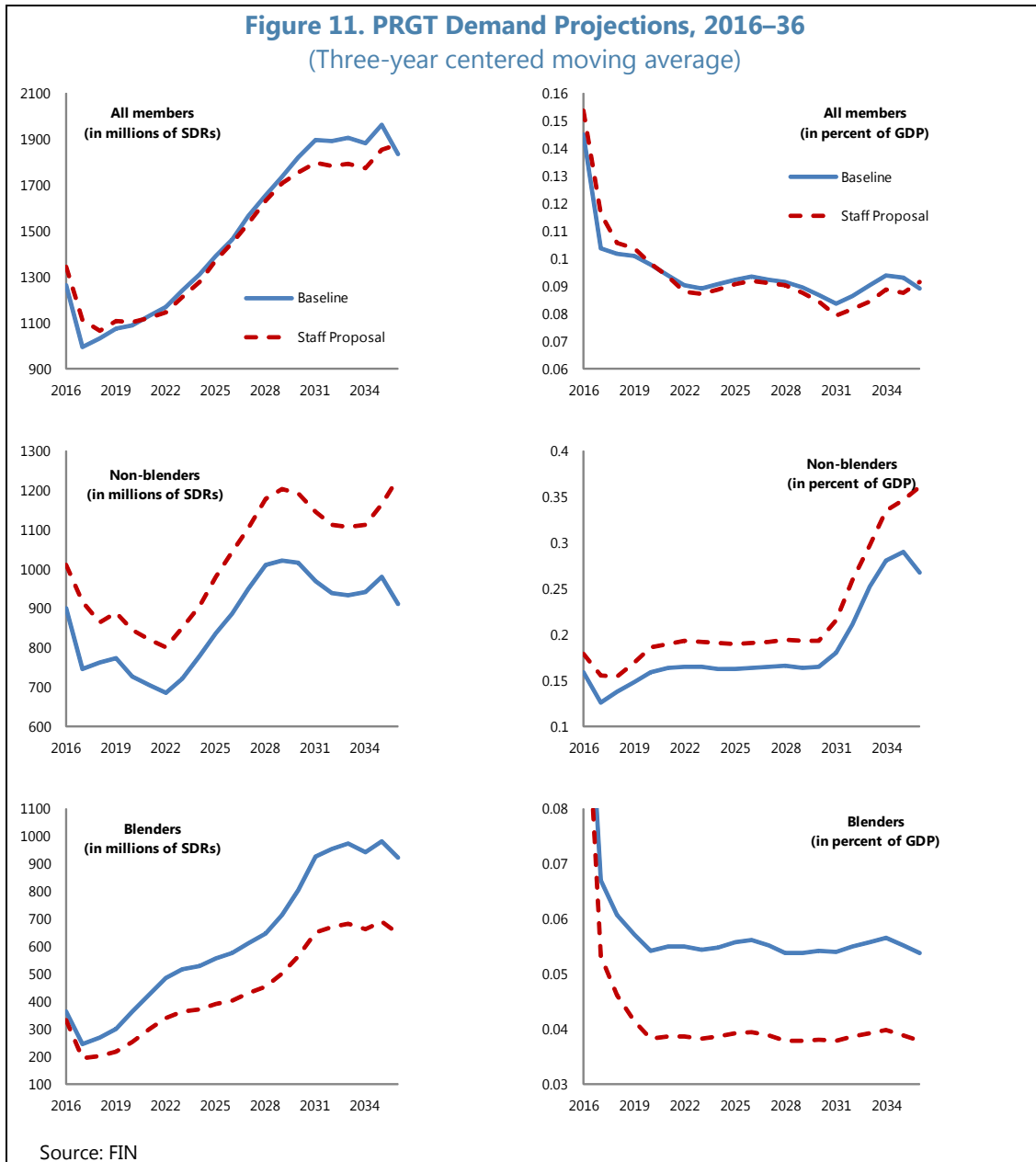
Note: Bolivia, Mongolia, Nigeria, and Vietnam are assumed to graduate in 2015 if the Executive Board approves the staff proposals in the forthcoming staff paper *Eligibility to use the Fund's Facilities For Concessional Financing, 2015*. For access base grows by 24.2 percent every three years starting in 2016 in the current and in 2020 in the proposed (after the 50 percent increase in 2016).

1/ With minor revision from April 2015 Update paper to incorporate revisions to blender status for some members.

31. PRGT lending to the poorest and most vulnerable (non-blenders) would increase, and decrease to blenders, relative to baseline projections (Figure 11). The number of non-blenders is expected to decrease from 46 in 2015 to 13 at the end of the projection period as many graduate to middle-income status, thus capping overall PRGT loan growth stemming from this group of countries. However, lending as a share of GDP would remain steady or increase and be allowed to exceed the baseline for this group of countries. By contrast, the number of blenders fluctuates between 23 and 34 throughout the projection period as some blenders graduate from the PRGT while others transit to blender status. Owing to the shift in funding, PRGT lending to the group of blenders remains below baseline demand throughout the projection period, both in nominal terms and relative to countries' GDP.

32. Beyond the proposed 50 percent access increase, staff also considered a proposal for a more aggressive upfront increase in access, such as a doubling of norms and limits, and concluded that, absent a sizeable injection of more subsidy resources, the proposal would not be consistent with the three-pillar strategy of the PRGT. The robustness of the PRGT framework would be at risk as a stronger initial boost to loan demand under such proposals would likely surpass the PRGT self-sustained lending capacity under a wider range of demand scenarios, particularly in the short to medium term.²⁴

²⁴ Staff calculations indicate that, it would take only one out of five programs (or even fewer large cases) with access at twice the current norm (instead of 1.5 times the current norm) for demand to be boosted beyond capacity.



33. Risks to this assessment, mainly related to uncertainty surrounding drivers of PRGT loan demand, are broadly balanced. PRGT usage will continue to be reviewed annually in the context of the Update Paper of the Fund’s concessional financing assistance with a view to assure self-sustainability of the Trust.

- **Blending and graduation projections:** The current model to forecast PRGT loan demand relies on a continued decline in the number of non-blenders and a steady graduation of members from eligibility for PRGT financing, based on projections of GNI per capita. This keeps growth in nominal loan demand in check while the resource envelope for remaining PRGT-eligible countries can rise, broadly in line with future income and quotas. While growth projections are

based on WEO forecasts, actual graduation or transition to blender status could occur at a faster or slower pace, resulting in lower or higher loan demand relative to projections.

- **Debt distress and market access:** The forecast model may somewhat understate PRGT loan demand because it makes no assumption in the longer term that any countries' ability to use a blend of PRGT and GRA resources is constrained by a high risk of debt distress. However, the framework also does not assume any blending or graduation based on countries meeting the market access criterion, thereby introducing an offsetting upward bias in demand. Periodic updates to projections will incorporate the impact of changes to debt distress ratings and market access.
- **Greater interest in facilities:** Overall demand for Fund resources might increase from members that were disinterested in borrowing from the Fund at existing access levels. However, the proposed increases in access limits are not out of line with historical precedents while spikes in revealed program interest, measured by the proportion of program countries to eligible countries, over the past three decades have occurred primarily during major structural shifts and/or crises in the global economy, suggesting that need plays a relatively more important role than access per se.²⁵
- **Default risk:** There is some risk that higher lending by the Fund to the poorest and most vulnerable members, with unchanged lending from other sources, could lead to debt servicing difficulties later on. Similarly, the blending proposals transfer some demand from the PRGT to the GRA at the cost of a higher effective debt service burden for the recipient countries. To address this risk, Fund-supported programs should continue to pay close attention to debt risks in the assessment of capacity to repay and debt sustainability analysis (DSA). In cases where external debt issued on market terms is an important component of external debt, staff would be expected to make use of relevant elements of the market access countries DSA as a tool for exploring market-related risks, reporting on these risks, if significant, in program documentation.

34. While robust, the proposal marginally reduces the scope for future access increases. In particular, increase in quotas in the context of the 14th review of quotas might generate an expectation of further increases in PRGT access. However, increased access in 2016 would not leave room for further step increases, in the order 20–25 percent, until 2019–20. Therefore, any proposed 2016 increase would need to be understood as frontloading future increases of norms and limits in the PRGT, and that access norms and limits would need to be commensurately reduced at the time of the effectiveness of the 14th review of quotas.

²⁵ See Box 2 of the April 2015 Update paper IMF (2015a).

OTHER CONSIDERATIONS

35. Required Board majorities. The proposed changes to the access limits and norms, to the blending rules and the proposed zero interest rate on RCF loans, with corresponding modifications of the interest rate mechanism in the PRGT can be adopted with a majority of the votes cast. The proposed decisions to implement the staff's proposals are contained in a forthcoming supplement to this paper.

36. Impact on existing arrangements upon the adoption of the proposed decisions. The proposed new access limits will not affect any disbursements under arrangements that were approved prior to the date of the decision establishing these limits, and any changes in access levels going forward would need to be justified by balance of payments need in accordance with the standard policies for augmentation of access amounts. Outstanding PRGT credit in existence at the time of adoption of the proposed decisions would count towards the new annual and cumulative PRGT access limits. In addition, access to RFI assistance approved *after* adoption of the decisions proposed in this paper would count towards the applicable RCF annual and cumulative limits.

ISSUES FOR DISCUSSION

37. Do Directors agree with proposals to enhance the financial safety net to developing countries? Specifically by:

- Raising access norms, annual access limits, and cumulative access limits by 50 percent across the concessional facilities for all PRGT-eligible countries, increasing existing quota-based thresholds for the procedural safeguards for high access PRGT financing requests, and rebalancing the funding mix of concessional to non-concessional resources provided in blended financing from 1:1 to 1:2 up to the applicable PRGT norm;
- Amending the PRGT interest rate on RCF loans to set it at zero percent, and make corresponding changes in the PRGT instrument so as to increase the level of concessionality of support to PRGT-eligible countries facing urgent balance of payments needs, notably states in fragile situations;
- Increasing RFI annual and cumulative access limits by one half in line with the increase in RCF limits to enhance support for all members with urgent balance of payments needs, including in fragile states. Access to RFI assistance would count towards the applicable RCF annual and cumulative limits; and
- Reducing access norms and limits commensurately at the time of the effectiveness of the 14th review of quotas.

Annex I. Country Groupings

Annex Table 1. PRGT-Eligible Developing Countries

Country	DSA(March,2015)	Country	DSA(March,2015)
<i>Poorest and most vulnerable (47)</i>		<i>Presumed Blenders (27) 1/</i>	
<i>Below IDA cutoff (\$1,215)</i>		<i>Above IDA cutoff(\$1,215)</i>	
Afghanistan, I.S. of	High	Bhutan	Moderate
Bangladesh	Low	Bolivia	Low
Benin	Low	Cameroon	Moderate
Burkina Faso	Moderate	Cabo Verde	Moderate
Burundi	High	Congo, Republic of	Low
Cambodia	Low	Côte d'Ivoire	Moderate
Central African Republic	High	Guyana	Moderate
Chad	High	Honduras	Moderate
Comoros	Moderate	Lao PDR	Moderate
Congo, Dem. Rep. of	Moderate	Lesotho	Moderate
Eritrea	In debt distress	Maldives	Moderate
Ethiopia	Low	Moldova	Low
Gambia, The	Moderate	Mongolia	Moderate
Guinea	Moderate	Nicaragua	Moderate
Guinea-Bissau	Moderate	Nigeria	Low
Haiti	High	Papua New Guinea	Low
Kyrgyz Republic	Moderate	Solomon Islands	Moderate
Liberia	Low	St. Vincent and the Grenadines	Moderate
Madagascar	Low	Timor-Leste	Low
Malawi	Moderate	Tonga	Moderate
Mali	Moderate	Uzbekistan	n.a.
Mauritania	High	Vanuatu	Low
Mozambique	Moderate	Vietnam	Low
Myanmar	Low	Yemen, Republic of	Moderate
Nepal	Low	Zambia	Low
Niger	Moderate		
Rwanda	Low	<i>Above 80 percent IDA cutoff with market access</i>	
Sierra Leone	Moderate	Kenya	Low
Somalia	n.a.	Senegal	Low
South Sudan	n.a.		
Sudan	In debt distress		
Tajikistan	Moderate		
Tanzania	Low		
Togo	Moderate		
Uganda	Low		
Zimbabwe 2/	In debt distress		
<i>Above IDA cutoff with debt vulnerability</i>			
Djibouti	High		
Dominica	High		
Ghana	High		
Grenada	In debt distress		
Kiribati	High		
Marshall Islands	High		
Micronesia, Fed. States of	n.a.		
Samoa	High		
São Tomé and Príncipe	High		
St. Lucia	High		
Tuvalu	High		

1/ Blending is presumed for PRGT-eligible countries with either (i) per capita income above 100 percent of the prevailing operational cutoff used by IDA or (ii) sustained past and prospective market access and a per capita income that exceeds 80 percent of the IDA operational cutoff. Blending should normally not be used for countries at a high risk of debt distress or in debt distress (as assessed by the most recent joint Bank-Fund LIC Debt Sustainability Analysis (DSA)), even if per capita income or market access creates a presumption for blending.

2/ Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligibility list by a Board decision in connection with its overdue obligations to the PRGT. It would be expected to become PRGT-eligible if the remedial measure were lifted.

Annex II. Proposed Changes to Access Norms, Limits, Blending Proportions, and Procedural Safeguards

Access Limits	Current	Proposed	Upon Effectiveness of 14 th Review of Quotas
<i>Cumulative access limits</i>			
All PRGT facilities-normal	300	450	225
All PRGT facilities-exceptional	450	600	300
RCF 1/	100	150	75
RCF (exogenous shocks window) 1/2/	125	150	75
RFI	100	150	75
<i>Annual access limits</i>			
All PRGT-facilities-normal	100	150	75
All PRGT-facilities-exceptional	150	200	100
SCF precautionary, average	50	75	37.5
SCF precautionary, at approval	75	112.5	56.25
RCF 1/	25	37.5	18.75
RCF (exogenous shocks window) 1/	50	75	37.5
RFI	50	75	37.5
<i>Norms 3/</i>			
ECF (annual) – High access	40	60	30
– Low access	25	37.5	18.75
SCF (annual avg) – High access	80	120	60
– Low access	50	75	37.5
<i>Blending proportions</i>			
(PRGT:GRA)	1:1 up to the applicable norm, GRA thereafter	1:2 up to the applicable norm, GRA thereafter	1:2 up to the applicable norm, GRA thereafter
<i>Triggers for procedural safeguards on high access requests</i>			
Total access in any 24-month period—for DSA/DSA update	80	120	60
Total access in any 36-month period—for an informal Board Meeting in advance of new PRGT request	180	270	135
1/ Any RFI access also counts towards these limits.			
2/ RCF cumulative limit is raised 50 percent relative to limit in 2010. A 25 percent increase of this limit was approved in the 2013 Concessional Facilities Review.			
3/ High access norms apply if PRGT credit outstanding is less than 100 percent of quota in the baseline, 150 percent of quota in the proposed change. Norms are not applicable if PRGT credit outstanding >200 percent of quota under the baseline, >300 percent of quota under the proposed changes.			

Annex III. MDBs Measures to Increase Their Lending Capacity to Developing Countries

In a recent joint statement on FfD,¹ MDBs committed to helping raise an important part of the required flows needed to achieve the SDGs, either through direct financing, by leveraging their capital or catalyzing other resources. In this connection, a number of proposals have already been approved by the African Development Bank (AfDB), the Asian Development Bank (ADB), and the World Bank with the aim of increasing their lending capacity for developing countries. These include:

- **AfDB lending: extend access to the sovereign (non-concessional) window:** This measure aims to facilitate access of eligible ADF-only countries to the sovereign window for the purpose of financing profitable projects. Various criteria are set to ensure that such a move will not raise the risks of debt distress faced by borrowing countries.
- **Enhancing ADB's Financial Capacity for Reducing Poverty in Asia and the Pacific:** This outcome is to be achieved by combining the Asian Development Fund's (ADF) lending operations with the ordinary capital resources (OCR) balance sheet, retaining the ADF as a grant-only operation, effective from January 2017.² As a result, the ADB is expected to expand its lending capacity by up to 50 percent, strengthening the ability of the institution to meet demand from its developing member countries, including those expected to graduate in the near term.
- **Boosting IBRD's Margins for Maneuver (World Bank Group):** The World Bank has decided to increase the International Bank for Reconstruction and Development's (IBRD)³ Single Borrower Limit by \$2.5 billion for Brazil, China, Indonesia, India, and Mexico, while lowering the IBRD minimum equity-to-loan ratio and changing the IBRD's loans terms. These measures are expected to increase the IBRD's annual lending commitment capacity from the current \$15 billion in annual lending to more than \$25 billion per year and to help address additional demand from developing countries for infrastructure financing. The World Bank Group is exploring other ways to increase WBG's financial capacity, including by leveraging IDA's capital to finance additional non-concessional loans, while maintaining IDA's focus on the poorest and fragile and conflict-affected states and allowing for enhanced targeting of scarce concessional resources.

¹ <http://www.worldbank.org/en/news/press-release/2015/04/16/joint-statement-mdbs-imf-head-financing-for-development>.

² ADF is the concessional financing window of the ADB and OCR provide loans to middle-income countries at market-based rates. The ADB Board approved the proposal in March 2015: <http://www.adb.org/documents/chairs-summary-30-march-2015>.

³ IBRD provides financing, risk management products, and other financial services to middle-income countries.

A paper that summarizes a set of proposals by the MDBs to better leverage their financial resources and catalyze private financing is currently being prepared and is set to be issued prior to the July 2015 Financing for Developments United Nations Conference.

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**FINANCING FOR DEVELOPMENT: ENHANCING THE
FINANCIAL SAFETY NET FOR DEVELOPING COUNTRIES—
PROPOSED DECISIONS**

June 25, 2015

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Prepared by the Legal Department, Strategy, Policy, and Review
Department, and the Finance Department.

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INTRODUCTION

This paper sets forth the proposed decisions that are needed to implement staff's proposals as described in the Financing for Development: Enhancing the Financial Safety Net for Developing Countries. The paper summarizes key aspects of the proposed decisions.

1. Four decisions are proposed for adoption by the Executive Board.

- The relevant changes to the PRGT Instrument have been consolidated into one integrated decision as they constitute a package of measures collectively geared to the objective of better targeting the Fund's concessional financial assistance to the poorest and most vulnerable members, including states in fragile situations, while being consistent with maintaining the self-financing nature of the PRGT over time. Specifically, Decision I would implement the proposed amendments to the PRGT Instrument to: (i) increase annual and cumulative *normal* access limits across the concessional facilities for all PRGT-eligible countries; (ii) increase annual and cumulative *exceptional* access limits across the concessional facilities for all PRGT-eligible countries; (iii) increase *SCF-specific* access limits; (iv) increase *RCF-specific* access limits; (v) count any purchases under the RFI against RCF access limits; (vi) amend the interest rate mechanism to set the interest rate levied on RCF loans at zero percent; and (vii) amend the timing of periodic reviews on interest rates. The proposals pertaining to (i)-(iv) are described in Annex II of the main paper, *Financing for Development: Enhancing the Financial Safety Net for Developing Countries*.
- Going forward, to broadly preserve in SDR terms the new higher access limits proposed in the preceding bullet above, Decision II provides that these new limits will be reduced by one half once the general effectiveness conditions for quota increases under the Fourteenth General Review of Quotas are met.
- Decision III would implement the proposed amendments to the RFI Decision to raise annual and cumulative access limits for the RFI. This proposal is described in Annex II of the main paper, *Financing for Development: Enhancing the Financial Safety Net for Developing Countries*.
- Going forward, to broadly preserve in SDR terms the new higher access limits for the RFI proposed in the preceding bullet above, Decision IV provides that these new limits will be reduced by one half once the general effectiveness conditions for quota increases under the Fourteenth General Review of Quotas are met.

2. Redlined versions of the PRGT Instrument and the RFI Decision showing the proposed modifications are attached for the information of Executive Directors. See Annexes I-II of this supplement.

3. It should be noted that the proposed decisions do not reflect the proposals set out in the main paper, *Financing for Development: Enhancing the Financial Safety Net for Developing Countries*, regarding blending policies (rebalancing the blend of concessional and

nonconcessional resources from 1:1 to 1:2) and access norms since these policies have been established through summings up. If accepted by the Executive Board, the proposals on blending policies and access norms will be reflected in the summing up of the Board discussions.

SUMMARY OF DECISIONS

A. Amendments to the PRGT Instrument

4. Proposed Decision I - Decision I would implement the proposed amendments to the PRGT Instrument concerning access limits and with regard to the interest rate mechanism on RCF loans. Key aspects may be summarized as follows:

- **Increase in global PRGT annual and cumulative normal access limits:** Decision I would implement the proposal to increase the global annual normal access limit and the global cumulative normal access limit (net of scheduled repayments) under the PRGT by 50 percent. Specifically, the PRGT Instrument will be amended to increase the global annual and cumulative normal access limits from 100 percent to 150 percent of quota and 300 percent to 450 percent of quota (net of scheduled repayments) respectively. Normal access under the individual PRGT concessional facilities (i.e., the ECF, the SCF and the RCF) must be within these global limits.
- **Increase in global PRGT annual and cumulative exceptional access limits:** Decision I would implement the proposal to increase the global annual exceptional access limit and the global cumulative exceptional access limit (net of scheduled repayments) under the PRGT. Specifically, the PRGT Instrument will be amended to increase the global annual and cumulative exceptional access limits from 150 percent to 200 percent of quota and 450 percent to 600 percent of quota (net of scheduled repayments) respectively. Exceptional access under the individual PRGT concessional facilities (i.e., the ECF, the SCF and the RCF) must be within these global limits.
- **Increase in annual access limits for the SCF:** Decision I would implement the proposal to increase annual limits for SCF arrangements approved on a precautionary basis. Specifically, the PRGT Instrument would be amended to increase: (i) the annual access limit at approval for SCF arrangements that are approved in the absence of an actual balance of payments need from 75 percent to 112.5 percent of quota; and (ii) the average annual access limit at approval for SCF arrangements that are approved in the absence of an actual balance of payments need from 50 percent to 75 percent of quota.
- **Increase in annual and cumulative access limits for the RCF:** Decision I would implement the proposal to increase the annual access limit and the cumulative access limit (net of scheduled repayments) for the RCF, and the annual access limit and the cumulative access limit in cases of exogenous shocks. Specifically, the PRGT Instrument will be amended to increase: (i) the annual and cumulative access limits for the RCF from 25 percent to 37.5 percent of quota and from 100 percent to 150 percent of quota (net of scheduled repayments) respectively; and (ii) the annual and cumulative access limits for the RCF, when the RCF is used to address an urgent balance of

payments need resulting primarily from a sudden and exogenous shock, from 50 percent to 75 percent of quota and from 125 percent to 150 percent of quota respectively.

- **Calculation of RFI/RCF access limits:** Decision I would implement the proposal to count any purchases under the RFI that are made after the adoption of this decision against the RCF access limits.
- **Amendment to the interest rate mechanism:** Decision I would implement the proposal to amend the interest rate mechanism on RCF loans by setting the interest rate levied on RCF loans at zero percent.¹
- **Amendment to the timing of periodic reviews on interest rates:** The timing of periodic reviews of interest rates for the ECF, SCF and RCF was initially set for every two years with the first review to be completed by December 31, 2011. This changed when the Board adopted a decision to delay the second review scheduled for completion by end-2013 to end-2014 (Decision No. 15303-(13/1), adopted on December 21, 2012). In view of this decision and the proposal to set the interest rate on RCF loans at zero percent (thus no longer subject to periodic reviews of interest rates), Decision I provides for a periodic review of the interest rates for the ECF and SCF to be completed by December 31, 2016 and subsequently every two years thereafter.
- **Other changes:** The provision concerning the transitional arrangement to allow access above the annual and cumulative normal access limits until December 31, 2010 in certain cases will be deleted since this transitional arrangement has been completed and serves no operational purpose.

5. **Proposed Decision II** - Going forward, to broadly preserve in SDR terms the new higher access limits proposed in paragraph 4 above, Decision II provides that these new limits would be reduced by one half once the general effectiveness conditions for quota increases under the Fourteenth General Review of Quotas are met.

B. Amendments to the RFI Decision

6. **Proposed Decision III - Decision III would implement the proposal to increase annual and cumulative access limits by 50 percent for the RFI.** Specifically, the RFI Decision will be amended to increase annual and cumulative access limits for the RFI from 50 percent to 75 percent of quota and from 100 percent to 150 percent of quota (net of scheduled repurchases) respectively.

¹ Interest rates under the PRGT, including the RCF, will continue to be expressly conditioned on the availability of subsidy resources in the Trust. Moreover, as currently provided in the Instrument, if repayment obligations to the Trust become overdue, including with respect to an RCF disbursement, such obligations will no longer be subject to subsidization beyond their due dates. See Section II, paragraph 4(a) and Section IV, paragraph 5 of the Instrument to Establish the Poverty Reduction and Growth Trust, Annex to Decision No. 8759-(87/176) ESAF, December 18, 1987, as amended.

7. Proposed Decision IV - Going forward, to broadly preserve in SDR terms the new higher access limits proposed for the RFI in paragraph 6 above, Decision IV provides that these new limits would be reduced by one-half once the general effectiveness conditions for quota increases under the Fourteenth General Review of Quotas are met.

Proposed Decisions

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

Decision I. 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:

Section II, paragraph 2 (a)-(c) shall be amended to read:

“Paragraph 2. *Amount of Assistance*

(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 150 percent of quota; and (ii) a cumulative limit of 450 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 and prospective access to capital 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 200 percent of quota, and (ii) a maximum cumulative limit of 600 percent of quota, net of scheduled repayments.

(b) The access of each eligible member under the RCF shall be subject to an annual limit of 37.5 percent of quota and a cumulative limit of 150 percent of quota, net of scheduled repayments; provided that the annual and cumulative access limits under the RCF shall be 75 percent of quota and 150 percent of quota, respectively, net of scheduled repayments, in cases where (i) the member

requests assistance under the RCF to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock, and (ii) the member's existing and prospective policies are sufficiently strong to address the shock. 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.

(c) Unless the member has an actual balance of payment need at the time of approval of the arrangement, the Trustee shall not approve an SCF arrangement that provides for an average annual access in excess of 75 percent of quota and provides for annual access in excess of 112.5 percent of quota."

Section II, paragraph 4 (b) shall be amended to read:

"(b) The interest rates for the ECF and SCF as specified under subparagraph (a) shall be subject to periodic reviews to take account of developments in world interest rates, with such a review to be completed by December 31, 2016, and subsequent reviews every two years thereafter. In the context of such reviews, and subject to the provisions of Section IV, paragraph 5, the interest rate for loans under the ECF and SCF shall normally be determined by the Trustee as follows:

- (i) If the SDR interest rate (average rate over the most recently observed 12-month period) is less than 2 percent, the interest rate shall be established or maintained, as the case may be, at zero percent per annum for ECF loans, and at one quarter of one percent per annum for SCF loans;
- (ii) If the SDR interest rate (average rate over the most recently observed 12-month period) is 2 percent or more, up to 5 percent, the interest rate shall be established or maintained, as the case

may be, at one quarter of one percent per annum for ECF loans, and at one half of one percent per annum for SCF loans; and

(iii) If the SDR interest rate (average rate over the most recently observed 12-month period) is greater than 5 percent, the interest rate shall be established or maintained, as the case may be, at one half of one percent per annum for ECF loans, and at three quarters of one percent per annum for SCF loans.”

Decision II. Review of PRGT Access Limits

1. The Fund as Trustee of the Poverty Reduction and Growth Trust (“PRG Trust”) has reviewed the limits of overall access by eligible members to the resources of the Trust under all facilities pursuant to Section II, paragraph 2(d) of the PRG Trust, and decides as follows:

a. The percentages of quota referred to in Section II, paragraph 2(a) with regard to the annual and cumulative limits of overall access under all facilities shall be changed from 150 percent to 75 percent and from 450 percent to 225 percent respectively.

b. The percentages of quota referred to in Section II, paragraph 2(a) with regard to the maximum annual and cumulative limits of overall access under all facilities applicable when a member is experiencing an exceptionally large balance of payments need shall be changed from 200 percent to 100 percent and from 600 percent to 300 percent respectively.

c. The percentages of quota referred to in Section II, paragraph 2(b) with regard to the annual and cumulative limits of access under the RCF shall be changed from 37.5 percent to 18.75 percent and from 150 percent to 75 percent respectively.

d. The percentages of quota referred to in Section II, paragraph 2(b) with regard to the annual and cumulative limits of access under the RCF to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock shall be changed from 75 percent to 37.5 percent and from 150 percent to 75 percent respectively.

e. The percentages of quota referred to in Section II, paragraph 2(c) with regard to the limits of access at approval of an SCF arrangement that is approved in the absence of an actual balance of payments need shall be changed from 75 percent to 37.5 percent with regard to the average annual access and from 112.5 percent to 56.25 percent with regard to annual access.

2. This decision will become effective when the conditions specified in paragraph 3 of the Board of Governors Resolution No. 66-2 (December 15, 2010) are met and will apply to assistance under the PRGT committed after its date of effectiveness.

Decision III. Amendments to the Rapid Financing Instrument

The Rapid Financing Instrument (RFI) Decision, 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:

“5. 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 75 percent of quota, and (b) a cumulative limit of 150 percent of quota, net of scheduled repurchases.”

Decision IV. Review of RFI Access Limits

The Fund has reviewed the limits of access by members to resources under the Rapid Financing Instrument, Decision No. 15015-(11/112), November 21, 2011, as amended, and decides as follows:

1. The percentages of quota referred to in paragraph 5 with regard to the annual and cumulative limits by members under the RFI shall be changed from 75 percent to 37.5 percent and from 150 percent to 75 percent respectively.

2. This decision will become effective when the conditions specified in paragraph 3 of the Board of Governors Resolution No. 66-2 (December 15, 2010) are met and will apply to assistance under the RFI committed after its date of effectiveness.

Annex I. Instrument to Establish the Poverty Reduction and Growth Trust—Redlined Version

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the “Fund”) has adopted this Instrument establishing the Poverty Reduction and Growth Trust (hereinafter called the “Trust”), which shall be administered by the Fund as Trustee (hereinafter called the “Trustee”). The Trust shall be governed by and administered in accordance with the provisions of this instrument.

Section II. *Trust Loans*

Paragraph 2. *Amount of Assistance*

(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 ~~150~~100 percent of quota; and (ii) a cumulative limit of ~~450~~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 and prospective access to capital 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 ~~200~~150 percent of quota, and (ii) a maximum cumulative limit of ~~600~~450 percent of quota, net of scheduled repayments. ~~As a transitional arrangement, until December 31, 2010, the Fund may also approve access above the limits specified in the first sentence of this subparagraph (a), up to the limits specified in the second sentence, in cases where, as of January 7, 2010, (i) the total amount of resources committed to the member under the PRGF and ESF exceeded 50 percent of quota per year, or (ii) the total amount of credit outstanding under the PRGF and the ESF exceeded 150 percent of quota.~~

(b) The access of each eligible member under the RCF shall be subject to an annual limit of ~~37.5~~25 percent of quota and a cumulative limit of ~~150~~100 percent of quota, net of scheduled repayments; provided that the annual and cumulative access limits under the RCF shall be ~~75~~50 percent of quota and ~~150~~125 percent of quota, respectively, net of scheduled repayments, in cases where (i) the member requests assistance under the RCF to address an urgent balance of payments need

resulting primarily from a sudden and exogenous shock, and (ii) the member's existing and prospective policies are sufficiently strong to address the shock. 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.

(c) Unless the member has an actual balance of payment need at the time of approval of the arrangement, the Trustee shall not approve an SCF arrangement that provides for an average annual access in excess of ~~75.50~~ percent of quota and provides for annual access in excess of ~~112.5~~ 75 percent of quota.

Paragraph 4. *Terms of Loans*

(a) Effective January 7, 2010, interest on the outstanding balance of Trust loans shall be charged at the rate of zero percent per annum for loans under the ECF and RCF, and at the rate of one quarter of one percent per annum for loans under the SCF and ESF, subject to the provisions of Section IV, paragraph 5, and provided that interest at a rate equal to the rate of interest on the SDR shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

(b) The interest rates for the ECF, and SCF ~~and RCF~~ as specified under subparagraph (a) shall be subject to periodic reviews to take account of developments in world interest rates, with ~~the first~~ such a review to be completed by December 31, ~~2016~~2011, and subsequent reviews every two years thereafter. In the context of such reviews, and subject to the provisions of Section IV, paragraph 5, the interest rate for loans under the ECF, and SCF ~~and RCF~~ shall normally be determined by the Trustee as follows:

(i) If the SDR interest rate (average rate over the most recently observed 12-month period) is less than 2 percent, the interest rate shall be established or maintained, as the case may be, at zero percent per annum for ECF ~~and RCF~~ loans, and at one quarter of one percent per annum for SCF loans;

(ii) If the SDR interest rate (average rate over the most recently observed 12-month period) is 2 percent or more, up to 5 percent, the interest rate shall be established or maintained, as the case

may be, at one quarter of one percent per annum for ECF ~~and RCF~~ loans, and at one half of one percent per annum for SCF loans; and

(iii) If the SDR interest rate (average rate over the most recently observed 12-month period) is greater than 5 percent, the interest rate shall be established or maintained, as the case may be, at one half of one percent per annum for ECF ~~and RCF~~ loans, and at three quarters of one percent per annum for SCF loans.

Annex II. Rapid Financing Instrument—Redlined Version

5. 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 ~~7550~~ percent of quota, and (b) a cumulative limit of ~~150100~~ percent of quota, net of scheduled repurchases.
