INTERNATIONAL MONETARY FUND

Review of Facilities for Low-Income Countries

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

In consultation with other Departments

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Acronyms and Abbreviations

ACs	Assessment Criteria
ADF	African Development Fund
AFD	Agence Française de Développement
CFF	Compensatory Financing Facility
ECF	Extended Credit Facility
ENDA	Emergency Natural Disaster Assistance
EPCA	Emergency Post-Conflict Assistance
ESAF	Enhanced Structural Adjustment Facility
ESF	Exogenous Shocks Facility
FCL	Flexible Credit Line
GRA	General Resources Account
HAC	High Access Component
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IMFC	International Monetary and Financial Committee
LICs	Low-Income Countries
MDRI	Multilateral Debt Relief Initiative
PCDR	Post-Catastrophe Debt Relief
PLL	Precautionary and Liquidity Line
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Papers
PSI	Policy Support Instrument
RAC	Rapid Access Component
RCF	Rapid Credit Facility
SAF	Structural Adjustment Facility
SBAs	Stand-By Arrangements
SCF	Standby Credit Facility
SMP	Staff-Monitored Program
SSA	Sub-Saharan Africa
UCT	Upper-Credit Tranche

EXECUTIVE SUMMARY

- The 2009 reforms have broadly achieved their objective of closing gaps and creating a streamlined architecture of facilities that is better tailored to the diverse needs of LICs. Supported by the financing package to boost the PRGT's lending capacity for 2009–14 and the accompanying doubling of access, the Fund was able to mount an effective response to LICs' needs during the global financial crisis.

- Demand for Fund support through its LIC facilities has been high, and shifted to a more diverse range of tools, with greater use of short-term and emergency financing facilities, blending, and augmentations. Use of facilities has been greatest among the poorer and HIPC-eligible LICs, and has increased strongly for small and fragile economies.

- New empirical evidence suggests that longer-term IMF program support has helped LICs support economic growth and build macroeconomic buffers, while short-term financing during the recent crisis helped preserve vital spending and facilitated a rapid recovery.

- Looking ahead, LICs will remain exposed to global risks and volatility. In this context, the central challenge is to preserve the Fund's ability to provide effective policy and financial support in the face of a sharp prospective drop in the PRGT's lending capacity after 2014.

- Creating a sustainable concessional financing framework will require securing additional resources—either through use of gold windfall profits or regular fundraising—while making the most efficient use of the PRGT's limited resources by better targeting LICs' diverse needs and capacities, including greater use of blending with GRA resources.

- Current access levels in SDR terms remain on average broadly adequate for now, but there is scope for better targeting country-specific balance of payments needs. Future adjustments in access will depend in large part on available resources. Access levels in terms of quotas will need to be reduced when the 14th quota review becomes effective.

- Existing PRGT financing terms appear on average to strike the right balance between concessionality and lending capacity, although there may be merit in more differentiated terms, e.g., through greater use of blending.

- Given persistently high global risks, improving the Fund's ability to meet LICs' increased demand for contingent financing and policy support would help reduce their reliance on costly self-insurance. However, any modifications should be designed to limit the need for additional resources.

- Many members utilized the increased operational flexibility under the 2009 reforms, but recent experience has highlighted a few areas where streamlining and greater flexibility could enhance the Fund's ability to respond effectively to members' needs.

REVIEW OF FACILITIES FOR LOW-INCOME COUNTRIES

1. **This review examines the experience with the Fund's facilities for low-income countries (LICs), and considers some possible options for refinements.**[1] The Fund's facilities for LICs were overhauled in 2009, with a view to increasing their flexibility and better tailoring them to the increasingly diverse needs of LIC members. With almost three years having elapsed, this paper is an early opportunity to review to what extent the reforms have met these objectives and explore areas where further enhancements to the toolkit could be considered. A key objective is to ensure that the Fund retains the capacity to provide effective policy and financial support as LICs will remain exposed to global risks and volatility. Trade-offs among the options for possible enhancements will need to be considered to ensure that the Fund's limited concessional lending capacity, which is likely to decline after 2014–15, is used most effectively in support of LIC members. This paper represents the first stage of the review, and will be followed by a second paper with specific proposals based on the feedback of Executive Directors. A separate Board paper on the review of PRGT eligibility is planned for early 2013.

I. RECENT REFORMS TO LIC FACILITIES

The 2009 reform closed gaps and created a streamlined architecture of facilities tailored to the diverse needs of LICs. Access was doubled; access policies revised; blending rules strengthened; concessionality increased, including through temporary interest relief; and a financing package was approved to boost the Fund's lending capacity during 2009–14.

2. **The Fund's support to LICs has evolved over time as countries' needs changed**. For the two decades following the introduction of the Enhanced Structural Adjustment Facility (ESAF) in 1987, the Fund's program and financial support to LICs was delivered almost entirely through medium-term financial arrangements aimed at addressing protracted balance of payments problems, and in rare cases through Emergency Natural Disaster Assistance (ENDA) or Emergency Post-Conflict Assistance (EPCA). This basic facilities structure remained largely intact following the introduction of the Poverty Reduction and Growth Facility (PRGF) in 1999, albeit with a greater emphasis on poverty reduction and growth. With improved policies and supported by debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI), many LICs progressively reduced their dependence on continuous IMF balance of payments support. This led to the introduction of the Policy Support Instrument (PSI) in 2005, which allowed the most advanced countries to continue close policy engagement without Fund financial support, and to the introduction of the Exogenous Shocks Facility (ESF) in 2006, which was

[1] LICs are defined in this context as countries eligible to use resources from the Poverty Reduction and Growth Trust (PRGT).

specifically designed to assist LICs dealing with exogenous shocks. The ESF was enhanced in 2008 with the creation of the Rapid Access Component (ESF-RAC) and High Access Component (ESF-HAC), which could thereafter be used alongside the PSI.

3. **These gradual enhancements had left some gaps in the toolkit, and also created a number of overlaps**. The changes to the Fund's LIC facilities preceding the 2009 reforms were introduced in a piecemeal fashion and left three notable gaps in the Fund's concessional financing toolkit: (i) flexible short-term financing; (ii) a precautionary instrument; and (iii) flexible emergency financing. Use of the ESF-HAC was limited to exogenous shocks, and could not address short-term financing and adjustment needs when these were primarily caused by domestic factors. The lack of a concessional precautionary instrument constrained the Fund's capacity to support LICs that may face no immediate financing needs but are exposed to global volatility due to their increased integration in international goods and capital markets. Emergency assistance was available under three different instruments for LICs hit by natural disasters (ENDA), affected by exogenous shocks (ESF-RAC), or emerging from conflict (EPCA), but the Fund lacked a streamlined tool to provide rapid emergency assistance for urgent balance of payments needs, irrespective of their cause. Moreover, access levels had severely eroded over the past decade, and access policies were not consistent across instruments. These factors contributed to an increasing number of LICs seeing the need to turn to (nonconcessional) Stand-By Arrangements (SBAs).

4. **The 2009 reform created a new architecture of concessional facilities aimed at providing more flexible and tailored support to LICs' diverse needs.**[2] The Extended Credit Facility (ECF) replaced the PRGF as the main tool for addressing protracted balance of payments problems. The Standby Credit Facility (SCF) was created to provide support to LICs with short-term balance of payments needs, akin to that provided under the SBA, with the possibility of using it on a precautionary basis. The Rapid Credit Facility (RCF) was created to provide rapid low-access financing with limited conditionality to meet urgent balance of payments needs, widening the scope of emergency assistance to cover needs arising from domestic factors and streamlining existing emergency instruments as used by LICs (ENDA, EPCA, and ESF-RAC) under one facility. The PSI was kept largely unchanged. See Appendix I for details.

5. **Access policies were also revised, blending rules strengthened, and concessionality increased through a new interest rate mechanism**. Access levels were doubled, and new access limits and norms were designed to ensure consistency across the three facilities. Blending rules were strengthened to ensure a more consistent use of blending, with a view to preserving concessional resources while allowing higher access when needed

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[2] See IMF (2009f) and IMF (2009g).

(see Appendix II). A new interest rate mechanism was introduced to increase concessionality and limit fluctuations of the grant element in the context of global interest rate volatility (see Appendix III). In addition, temporary interest relief on all concessional credit was approved, and recently extended through end-2012, to help LICs cope with the crisis. Some other modalities were made more flexible, including by allowing more time to meet Poverty Reduction Strategy (PRS) documentation requirements. Around the same time, the Fund also made its debt limits policy and structural conditionality more flexible and tailored to country circumstances.

LIC Facilities Architecture

	UCT 1/			**Non UCT**
Instrument	Policy Support Instrument (PSI)	Standby Credit Facility (SCF)	Extended Credit Facility (ECF)	Rapid Credit Facility (RCF)
Financing	No/Limited Financing Need	Precautionary/Short-term Financing Need	Medium-term Financing Need	Emergency Financing Need

1/ Instruments or facilities that support upper-credit tranche (UCT) quality programs.

6. **In July 2009, the Board endorsed a LIC financing package to more than double the Fund's concessional lending capacity to SDR 11.3 billion (US$17 billion) for the period 2009–14**. Most of the additional subsidy resources are being mobilized from the Fund's internal resources, including those linked to gold sales, but they also include new bilateral contributions (see Appendix IV). In addition, the general and special SDR allocations agreed during the height of the crisis provided more than SDR 8 billion to bolster LICs' foreign exchange reserves and help alleviate financing constraints during the global financial crisis.[3]

II. Experience With The New LIC Facilities

7. **A preliminary assessment of experience since the 2009 facilities reform suggests that the Fund has largely been able to provide flexible and tailored support to LICs, which helped them navigate the global financial crisis**. The analysis is based on the observed usage of facilities, program design features, country characteristics, and economic outcomes associated with program usage. It was informed by staff consultations with member country authorities, civil society organizations, and Fund mission chiefs (Appendix V).

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[3] For a discussion of the impact of the SDR allocation, see IMF (2012g).

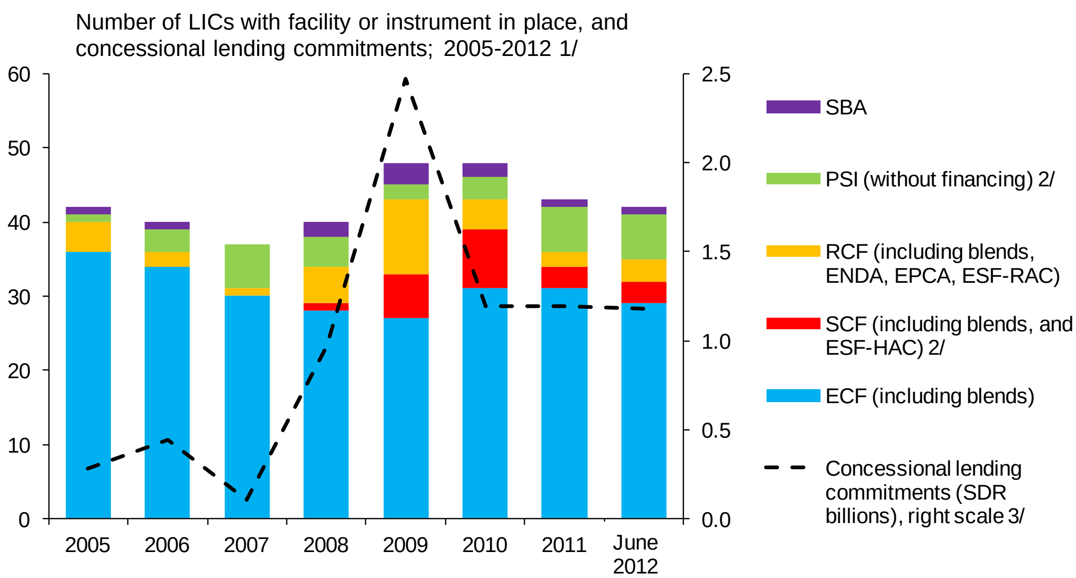
A. Tailoring to Country Needs

Demand for Fund support through its LIC facilities has been high, and shifted to a more diverse range of tools, with greater use of short-term and emergency financing facilities, blending, and augmentations. Use of facilities remains greatest among the poorer and HIPC-eligible LICs, and has increased strongly for small and fragile economies.

More diverse use of LIC facilities

8. **Demand for Fund policy and financial support has remained very high, with currently almost 50 PRGT-eligible countries in program or near-program mode**. New concessional financing commitments peaked at nearly SDR 2.5 billion (US$3.8 billion) at the height of the crisis in 2009, almost four times the historical average. In 2010 and 2011, annual commitments averaged SDR1.2 billion, well above both the historical average and the Fund's longer-term concessional lending capacity (see Section III.A). By contrast, official development assistance from other sources has remained relatively stable.

9. **The nature of Fund support to LICs has become more differentiated** (Figure below and Tables 1 and 2). Since the reform, around three-quarters of PRGT-eligible countries have had a Fund-supported program or instrument in place, a somewhat higher share than prior to the onset of the crisis. At the same time, consistent with the reform objective of tailoring facilities to the diverse needs of LICs, the nature of Fund support has shifted from near exclusive reliance on the ECF and its predecessors to a more diverse range of tools, with a somewhat greater focus on policy support and episodic short-term and emergency financing, and several countries have sought precautionary financing.



1/ Shows one instrument per country and year for currently PRGT-eligible (71) countries. See Table 2 for details.
2/ For countries with concurrent PSI and short-term financing, only the latter is counted (Senegal (2008-10); Mozambique (2009-10); and Tanzania (2009-10)).
3/ New concessional commitments (including emergency assistance) cover all LICs that were PRGT-eligible at the time.

10. **The ECF has remained central to the architecture of facilities as the majority of LICs still face protracted balance of payments problems**. Usage has remained overall broadly stable, with around 30 ECF arrangements in place in any given year. However, there has been some change in the composition of ECF users as some (often post-HIPC) countries graduate, while other countries move from emergency to medium-term support. Interviews with country authorities indicated that the new name of the facility helped reduce perceived stigma in some cases, by avoiding attachment of an implicit label to countries. No low-access ECF arrangements have been requested since the onset of the crisis (see Sections III.B and III.C).

11. **The SCF, and previously the ESF-HAC, has helped LICs deal with turbulence in the global economy, and demand for precautionary support is growing.** Seven countries requested support under the ESF-HAC during 2008–09 to address the short-term balance of payments needs stemming from higher commodity prices and the global financial crisis. Since 2010, four SCF-supported programs have been requested (Solomon Islands in 2010 and 2011, Honduras, and Georgia), of which three were on a precautionary basis. Faced with an increasingly uncertain global outlook, interviews with country authorities and mission chiefs indicate a greater interest in precautionary support from the Fund (see Section III.C).

12. **The RCF has provided rapid low-access financing in a wide range of emergency situations since it became effective in early 2010.** Since 2008, 14 countries have requested support under the RCF and previous emergency facilities (ESF-RAC, ENDA, and EPCA), including five that used such emergency financing more than once. The strongest increase in demand came from small economies hit by natural disasters. Some countries affected by the global crisis also requested support under the RCF. A few countries requested the RCF to address urgent balance of payments needs arising before domestic political conditions were appropriate to move to ECF support, a type of assistance that was not available prior to the facilities reforms except in post-conflict cases.

13. **The PSI facilitated access to short-term financing during the crisis**. Since 2008, six LICs that had achieved broadly stable and sustainable macroeconomic positions sought support under the PSI, which provides policy support through program engagement and helps catalyze donor support. The PSI has also facilitated rapid access to short-term financing during the crisis (Senegal in 2008, Mozambique and Tanzania in 2009). At the same time, the group of PSI users has remained relatively small and confined to Sub-saharan Africa.

14. **As intended by the 2009 reform, the use of stand-alone SBAs among LICs has faded in recent years, while use of blending has increased.** Some of the LICs that had previously relied on stand-alone SBAs graduated from PRGT eligibility in 2010 (Angola, Pakistan, and Sri Lanka), while others moved to arrangements with blended PRGT-GRA financing (Armenia and Georgia). No stand-alone GRA financing has been requested by any PRGT-eligible country since the effectiveness of the reforms.

Use across country groups

15. **Reliance on LIC facilities has varied significantly across regions, and has increased in all regions except Asia** (see chart below and Table 3).[4]

- LICs in Sub-saharan Africa—representing roughly half of PRGT-eligible countries and two-thirds of LICs with per capita income below the International Development Association (IDA) threshold—have traditionally been the heaviest users of IMF facilities, and have further increased their engagement after the facilities reform. This reflected to some extent the needs arising from the global financial crisis, but also growing demand for new facilities.

- At the other end of the spectrum, LICs in the Asia Pacific region (accounting for one-quarter of PRGT-eligible countries) have been the least frequent users of LIC facilities, with currently only one ECF and one SCF arrangement in place. This may partly reflect the comparatively strong macroeconomic positions of many Asian LICs (including the near-absence of HIPC cases), the availability of alternative financing sources in the region and, according to mission chiefs, lingering stigma associated with Fund engagement post Asian crisis.

- LICs in the Western Hemisphere (representing one-eighth of PRGT-eligible countries) have increasingly relied on LIC facilities, in particular the RCF and previous emergency assistance tools, as a response to the global crisis and natural disasters.

- The sharpest increase in usage of LIC facilities occurred among LICs in the Middle East, Central Asia, and Europe (accounting for one-sixth of PRGT-eligible countries), driven primarily by new demand arising from the severe impact of the global crisis.

16. **Poorer LICs have relied more extensively on Fund support through its facilities than those with relatively higher per capita income.** Over two-thirds of countries with per capita income below the IDA operational cutoff have made use of a LIC facility or instrument in a given year since 2009, well above the rate of usage among PRGT-eligible countries with higher per capita income (see chart below, and Table 3 for details and methodology). At the same time, use of LIC facilities increased for both sets of country groups relative to the pre-crisis period, driven by higher demand for SCF, RCF, and PSI support. This trend toward new facilities and instruments has been particularly pronounced

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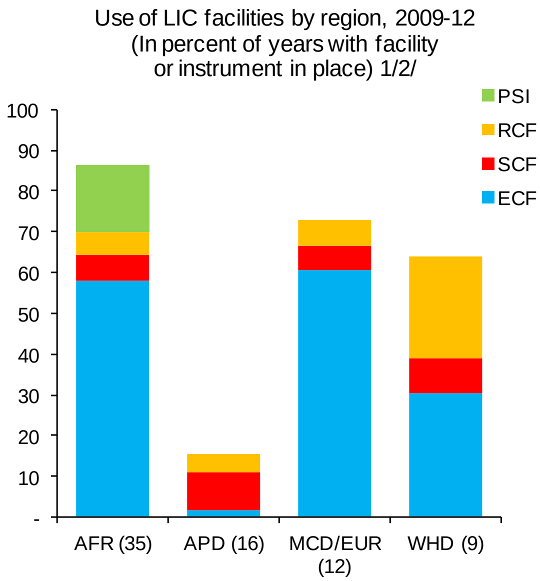
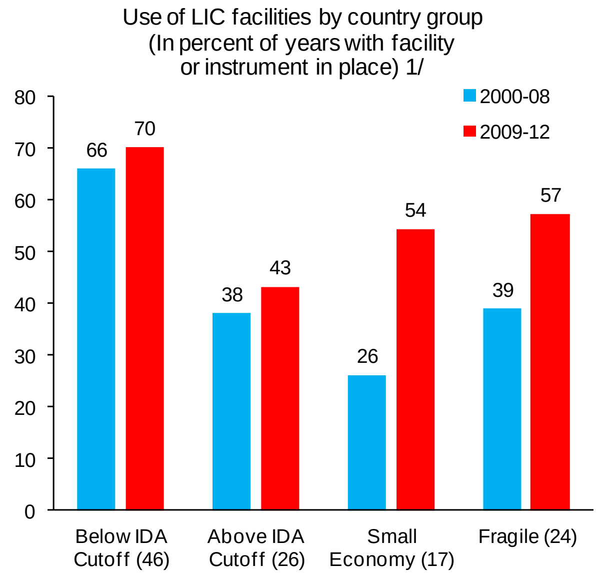
[4] See IMF (2009c).

for LICs with higher income and some market access.[5] In this group, five out of the six countries that requested Fund financial or policy support relied on an instrument other than the ECF.





1/ Sum of country years with facility or instrument in place as a share of total country years for each country group. Number of countries in each group shown in parentheses. See Table 3 for details on data and methodology.
2/ In any given year, more than one facility per year would be counted if more than one facility was in place.

17. **The strongest increase in demand for IMF facilities has come from small economies** (see chart above and Table 3).[6] Prior to the reform, only around one-quarter of small PRGT-eligible countries used Fund facilities in a given year, mainly the PRGF, followed by ENDA. Since 2009, more than half have sought support under a Fund facility, driven by requests for short-term financing under the RCF and SCF, and their predecessors. The use of the RCF is even more pronounced for small island economies, partly reflecting their exposure to natural disasters.

18. **LICs in fragile situations also increased their engagement with the Fund** (see chart above and Table 3).[7] Prior to the 2009 reforms, just over a third of LICs in fragile

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[5] For this analysis, we consider countries to have some market access if cumulative public external borrowing during 2005–09 exceeded 50 percent of quota (half the threshold used for the market access criterion for PRGT eligibility; see IMF (2012a). Using this definition, there are currently eight LICs with some market access, including six with per capita income above the IDA threshold.

[6] Small states are defined to be countries whose population is less than 1.5 million, consistent with the definition used for PRGT-eligibility.

[7] Based on the World Bank's definition, roughly one-third of PRGT-eligible countries are in fragile situations.

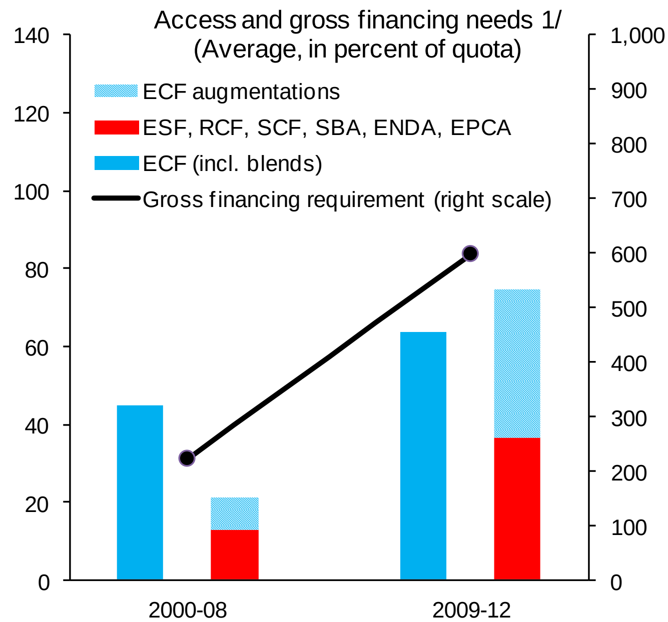
situations used the Fund's facilities in a given year, with many relying on Staff-Monitored Programs (SMPs) and the EPCA. Since 2009, almost two-thirds of fragile LICs have engaged with the Fund, mainly through the ECF and to a lesser extent the RCF, as windows of opportunity for reforms and debt relief opened up in several countries. However, in some of these cases, ECF-supported program implementation has proved difficult, in part reflecting institutional capacity constraints.[8]

B. Access, Blending, and Financing Terms

Access increased across all facilities post reform, in particular through augmentations and shock-related facilities. Blending PRGT with GRA resources has become more common, while a zero-interest rate has provided exceptional relief during the crisis period.

Access

19. **The 2009 reforms doubled access levels and overhauled access policies.** Total annual access as a share of total quota of all LICs increased from an average of about 6 percent during 2000–08 to 13 percent in 2009–12 (Table 4). As a result, average concessional credit outstanding of PRGT users increased from 47 to 76 percent of quota between end-2008 and June 2012 (Table 5). Average access in percent of quota for new financing requests increased across all facilities, in particular for shock-related financing through ECF augmentations and short-term/emergency financing tools (see chart). Concessional commitments in 2010 and 2011 were three times higher than in the five years before the reform of the facilities. While the higher level of financing was primarily driven by demand stemming from the global financial crisis, the reforms to access ensured that the Fund was able to



1/ As of end-June 2012. Gross financing needs are defined as the current account deficit excluding official transfers, amortization payments, arrears clearance, and change in reserves.

[8] This could suggest the need for greater reliance on the RCF, which does not require upper-credit tranche (UCT) conditionality and can provide rapid low-access financing to address urgent balance of payments needs and help build capacity in preparation for an eventual ECF arrangement. See IMF (2011d).

provide the support necessary to meet the higher level of financing needs.

20. **PRGT resources have been used most extensively by more vulnerable countries** (Table 4). Access was relatively evenly distributed across regions. However, total access to the PRGT by members in fragile situations, those with income below the IDA operational cutoff, and net oil importers was higher in 2009–12 as a share of their total group quota than for other LICs. This reflected the relatively large number of users in these groups. PRGT resources have also been used more extensively by pre-completion point HIPCs, where average access for individual members was higher than in the LIC group as a whole. Small economies, including those in the Caribbean, which relied heavily on the RCF, had comparatively low access.

21. **The number and size of augmentations have increased.** Augmentations of financial arrangements were used extensively during the global financial crisis, with nine countries requesting augmentations in 2009 alone. The average size of augmentations has increased to 32 percent of quota since the reform, compared to 15 percent of quota in 2000–08.

22. **Blending of concessional with GRA resources has increased following the 2009 reform.** Strengthened blending policies (see Appendix II) have ensured that LICs with relatively higher income per capita have relied on blending on a more consistent basis than was previously the case. This has allowed these countries to seek support under a LIC facility with higher levels of overall access compared to PRGT-only financing, albeit on somewhat less concessional terms.

Financing terms

23. **A new interest rate mechanism was introduced as part of the reforms to enhance the concessionality of Fund lending.** The mechanism links the interest rates paid on PRGT credit to the SDR interest rate, based on biennial reviews, reducing the fluctuation of the grant element as world interest rates change (see Appendix III). Additionally, exceptional interest relief—zero percent interest on all outstanding concessional credit—was adopted to assist LICs during the global crisis, and subsequently extended through end-2012. While the financial impact of this exceptional relief was relatively modest, the survey evidence indicates that it was strongly welcomed by country authorities (see Appendix V).

C. Design of PRGT Arrangements

Many countries have used the extra operational flexibility introduced in the context of the 2009 reforms.

24. **Program design and conditionality have become more flexible since 2009.** The Fund's conditionality framework was reformed in March 2009 to discontinue structural performance criteria in all Fund arrangements and to rely solely on a review-based approach to monitor structural reforms.[9] A recent staff study reports that more than 90 percent of country authorities and mission chiefs agreed that the way Fund-supported programs have been designed and implemented has been sufficiently flexible to accommodate evolving circumstances and events that are not under the control of the government, as the reform intended.[10] However, only a few programs have so far used flexibility introduced specifically for the ECF to link structural measures to the completion of reviews rather than specific dates.

25. **The 2009 reform of the debt limits policy has led to increased flexibility in external borrowing.** The new framework links limits on nonconcessional external borrowing to countries' individual debt vulnerabilities and to their macroeconomic and public financial management capacity. As of end-June 2012, 24 out of the 33 LICs with a Fund-supported program in place are eligible for the more flexible options provided under the new policy, and about half of the active PRGT-supported programs included a non-zero limit on nonconcessional borrowing, up from about a third in mid-January 2009. A review of the Fund's debt limits policy is envisaged for late 2012.

26. **Many ECF and PSI users have utilized the additional flexibility in the documentation requirements related to their PRS.** The reforms allowed ECF and PSI users more time to prepare a PRS document (by the time of the second review rather than prior to the start of the program). About two-thirds of ECF users and one-third of PSI users took advantage of the flexibility. However, the requirement to have updated PRS documents in place for every subsequent review still proved challenging in a few cases (see Section III.D).

27. **Nearly all programs adopted social and other priority spending targets to help safeguard spending levels**. One objective of the 2009 reforms was to place greater focus on safeguarding social and other priority spending. All but two ECF/PSI/SCF-supported

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[9] See IMF (2009a) and IMF (2009d).

[10] See IMF (2012e).

programs approved since 2010 used an indicative target to monitor social and other priority spending.

28. **Several ECF users have used the additional flexibility on extending the duration of their arrangements.** Assistance under an ECF arrangement is available for an initial three-year term, and the 2009 reform made it extendable for up to a total of two additional years (from previously one year). Since 2009, five countries have extended their ECF arrangements beyond four years.

D. Economic Outcomes[11]

New empirical evidence suggests that longer-term IMF program support has helped LICs support economic growth and build macroeconomic buffers, while short-term financing during the recent crisis helped preserve vital spending and facilitated a rapid recovery.

29. **Longer-term IMF program engagement and short-term financing facilities played important and distinct roles in helping LICs weather the global financial crisis.** While LICs experienced a sharp synchronized decline in economic growth in 2009, real GDP growth remained positive in most countries—unlike in previous downturns, and in contrast to much of the rest of the world. Empirical analysis by the staff suggests that assistance provided under different types of Fund facilities supported the crisis response of LICs through two channels: by helping countries gradually build stronger macroeconomic buffers prior to the crisis and by sharply stepping up financial support at the height of the crisis (see Supplement 1). This allowed LICs to mount a countercyclical fiscal policy response in 2009—a first for LICs, which in past crises tended to cut spending and tighten the fiscal stance.[12] The analysis underscores the merits of the Fund's diverse set of tools for LICs, by offering facilities for both medium-term policy support under the ECF and PSI and short-term financing through the SCF and RCF.

30. **Longer-term Fund support via successive medium-term programs helped LICs gradually build the macroeconomic buffers and institutional capacity needed for a robust policy response to the crisis.** A new econometric study presented in detail in Supplement 1 suggests extensive IMF program engagement has supported long-term growth and the buildup of macroeconomic buffers. While the majority of LICs improved their longer-term macroeconomic performance, this was more pronounced for those with long-term Fund support (at least five years per decade). Specifically, controlling for selection bias, the study shows that between 1986 and 2010, on average, these LICs experienced

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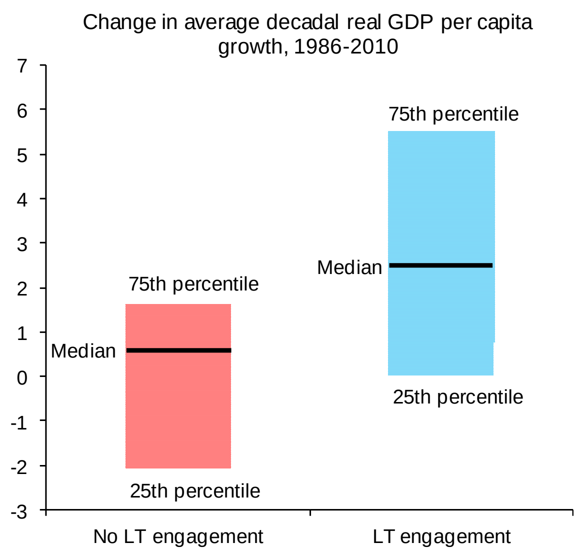
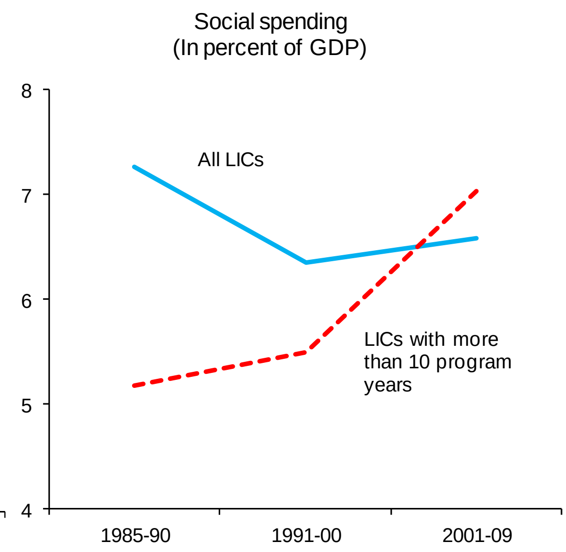
[11] For a detailed analysis of program design and objectives, and outcomes, see IMF (2012e).

[12] See IMF (2010d).

significantly higher real per capita GDP growth, tax revenue, FDI, institutional quality, and social spending while also achieving significant reductions in poverty, inflation, external debt, and growth volatility. Noticeably, this result does not seem to depend on the amount of Fund financing provided over the longer term.



Notes: The sample is composed of 75 LICs and four overlapping decadal period averages:1986-95; 1991-00; 1996-05; 2001-10. A country is considered to have longer-term (LT) engagement in a given decade if in five or more years it had a financial arrangement or a PSI in place, for at least six months in each of these years. The chart shows the distribution of decadal changes across countries by quartiles.



Notes: The sample is composed of 75 LICs. Each value represents an unweighted average over each period. Longer-term engagement is defined as 10 or more years of having an IMF financial arrangement or PSI in place during 1991-2010, for at least six months in each of these years.

31. **The Fund's sharp increase in financial assistance during the crisis helped relax countries' liquidity constraints, which allowed countries to preserve vital spending and facilitated a rapid recovery.** When the crisis hit, many LIC programs allowed for substantial fiscal and external accommodation, which may have helped limit the growth decline.[13] As shown in an earlier staff paper, countries supported by an IMF program were able to increase real spending more than non-program countries, and empirical evidence suggests that in many LICs, such countercyclical fiscal responses in 2009 helped cushion the adverse growth impact of the crisis.[14] This is consistent with the broader empirical findings in Supplement 1, which show that Fund financial support has the most impact when LICs are faced with substantial short-term imbalances or shocks. Specifically, after controlling for

[13] See IMF (2012f). In many LICs, external financing needs in 2009 often coincided with similar fiscal financing needs. Fund financial support helped alleviate both constraints in many cases, entailing some degree of direct or indirect budget financing. See also IMF (2010b).

[14] See IMF (2010d).

selection bias, stepped-up Fund financing through augmentations of ECF arrangements or short-term and emergency facilities such as the SCF and RCF is positively associated with short-term growth and indicators of macroeconomic stability.

32. **Fund engagement has helped protect social spending.** Over the longer term, social spending has tended to increase more in real terms in countries with longer-term IMF program support than in others.[15] During the crisis, government spending on the social sectors and public investment tended to increase in countries with Fund-supported programs, which helped mitigate the negative impact of the global crisis on economic growth and the poor. In addition, many countries took steps to strengthen social protection which had been found wanting at the time of the food and fuel price crisis of 2008.[16] Social spending continued to increase in real terms in most LICs with Fund-supported programs in 2010–11.

III. Challenges Ahead

33. **Looking ahead, the central challenge to be addressed in this review is how to preserve the Fund's ability to provide effective policy and financial support in the face of a sharp prospective drop in the PRGT's lending capacity after 2014.** As shown in Section II. D, the Fund has played an effective role in helping many LICs navigate the global financial crisis. While their financing needs are expected to diminish from recent levels as the crisis abates, LICs will remain highly exposed to global risks and volatility. In this context, demand for the Fund's concessional loans is projected to substantially outstrip available resources from 2015 onward. A framework for the longer-term sustainability of the PRGT will therefore require choices to be made on how to secure additional resources for the trust.

34. **Even if efforts to secure new resources are successful, it will be critical to make efficient use of the limited resources by targeting them to countries most in need.** Although the basic architecture of LIC facilities appears broadly appropriate, some possible refinements are discussed below. These include ideas for better tailoring of access, blending, and financing terms to country-specific needs; enhancing LICs' access to contingent financing from the Fund to reduce their reliance on costly self-insurance; and removing a

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[15] See empirical findings presented in the Supplement and *What Happens to Social Spending in IMF-Supported Programs?* by B. Clements, S. Gupta, and M. Nozaki (SDN/11/15, August 31, 2011), which estimates the effect of IMF-supported programs on education and health spending using a comprehensive dataset covering 1985–2009. Their results suggest that, controlling for other factors, IMF-supported programs have a significant positive effect on social spending in LICs and that a sustained period of program support raised spending on education and health by about ¾-1 percentage point of GDP over a five-year period.

[16] IMF (2008b).

number of procedural obstacles to flexible and timely financial support. Any refinements to the toolkit would, taken together, need to be made consistent with available resources.

A. Resources and Demand

The 2009 financing package provided adequate resources to meet LICs' balance of payments needs during the crisis and its aftermath, but the IMF lacks a sustainable concessional financing framework from 2015 onward.

35. **Assuming that access levels remain unchanged in SDR terms and the 2009 financing package is completed, PRGT resources are adequate through 2014.** The PRGT is expected to have an annual concessional lending capacity of about SDR 2.2 billion during 2012–14, which is at the upper end of demand projections. If demand turned out lower, e.g., at about SDR 1.6 billion annually (the average for 2009–11), lending at this level could be supported for another year, or the available resources at end-2014 could support a modest increase in the PRGT's longer-term lending capacity. Additional loan resources to support lending in the longer term would also need to be raised, as is envisaged for the prospective self-sustaining subsidization framework.

36. **Updated longer-term demand projections suggest that LICs' financing needs will outstrip the PRGT's lending capacity.** Demand is projected to be in the range of SDR 1.2–1.9 billion a year for 2015-34.[17] However, the PRGT's lending capacity falls sharply after the period covered by the 2009 financing package, to an annual average of only SDR 0.7 billion in nominal terms, or SDR 0.8 billion if demand through 2014 turned out at the lower end of projections.[18]

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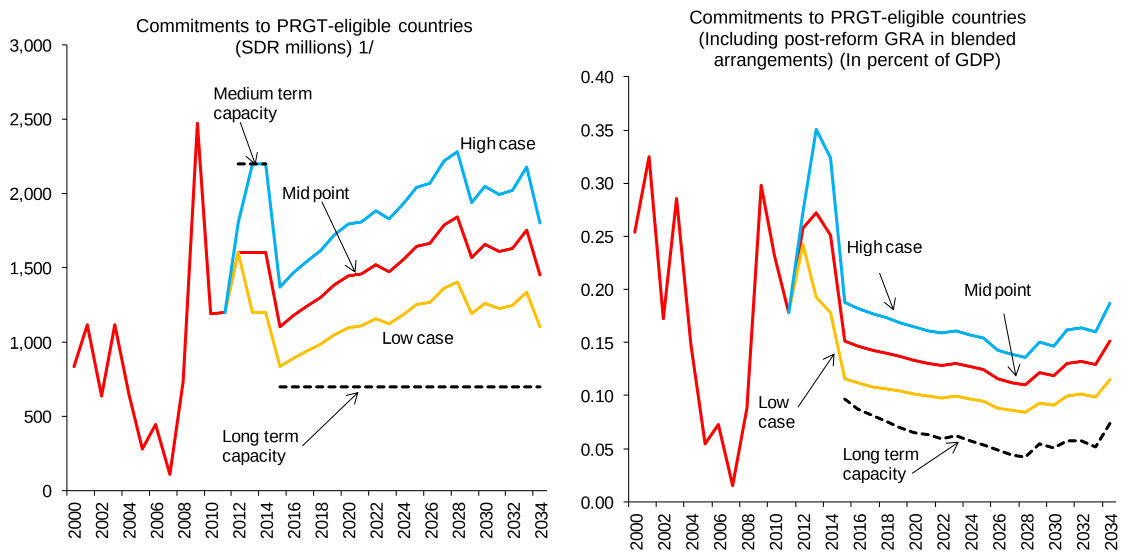
[17] This compares to SDR 1.1–1.9 billion reported in IMF (2011a). The methodology relies on a bottom-up approach that models income growth, interest rates, graduation, and access under various facilities, based on current access policies and with average access levels preserved in GDP terms from 2015 onward. The low-case (high-case) scenario assumes that on average about a third (one half) of countries that remain PRGT eligible will access Fund financing in any given year. Testing the results against historical demand of eligible countries as a share of GDP shows that the low case is comparable to the lowest-ever demand period of 2003–08, and the high case is comparable to 2001–10. See Appendix VI.

[18] Lending capacity is calculated based on the assumption that investment income in the Reserve Account would be used as subsidy resources for PRGT loans on a "self-sustaining" basis. However, the projected annual lending capacity of SDR 0.7 billion in nominal terms is subject to significant uncertainties—notably with respect to interest rates paid to loan contributors, LIC demand, investment returns on the Reserve Account, timing of resolution of protracted arrears cases—and would represent a gradual erosion of real lending capacity, as discussed in detail in Appendix VII.



1/ Excluding arrears clearance for DRC (2002), Liberia (2008) and very large assistance provided to Pakistan in the aftermath of 9/11.

37. **The projected demand range is robust to a number of alternative assumptions**. From the mid-point projection of SDR 1.5 billion, average annual demand over the period 2015–34 would either (i) fall to SDR 1.2 billion if the three largest PRGT-eligible countries (by quota) were not to draw again; (ii) fall to SDR 1.3 billion if per capita GDP growth in LICs was 2 percentage points higher than in the baseline, leading to faster graduation; (iii) increase to SDR 1.7 billion if countries were to graduate three years later than under the baseline; or (iv) increase to SDR 1.9 billion assuming access to the PRGT is 50 percent above the baseline in blend cases.

Options to fill the gap between projected demand and PRGT lending capacity

38. ***Option 1—Use of gold sale windfall profits.*** If the remaining windfall profits from gold sales (SDR 1.75 billion) were used to generate contributions to replenish the PRGT's subsidy resources, this would raise the Trust's annual "self-sustaining" lending capacity from about SDR 0.7 billion to SDR 1.1 billion—close to the lower end of projected demand.[19] To ensure sustainability of the approach, if and when demand were to rise above the low-case scenario, subsidy resources could in principle be supplemented (or conserved) through a combination of:

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[19] These estimates assume that the 2009 financing package is completed as envisaged. The Executive Board discussions in April and September 2011 of the use of remaining windfall profits from gold sales did not yield any consensus, and a further informal discussion is scheduled for September 2012. See IMF (2011b) and IMF (2011e).

- *Temporary suspension of reimbursement to the GRA for the PRGT's administration costs* would yield some SDR 65 million annually and raise the PRGT's lending capacity by an additional SDR 0.3 billion per year.[20]

- *Ad hoc bilateral fundraising* in severe global crises, such as was done as part of the 2009 financing package to meet the enhanced demand during the recent crisis.

39. ***Option 2—Establish a regular fundraising mechanism.*** The subsidy resources needed to meet the low-case demand scenario could also be raised through regular fundraising along the lines of the IDA or African Development Fund (ADF) replenishment.[21] The additional financing needs would be in the range of SDR 0.1 billion (low case) and SDR 0.3 billion (high case) per year. However, the required scale of this fundraising effort would far exceed the levels of resources that have been raised in recent years in ad hoc fundraising efforts that were only partially successful. Moreover, they would take place against the backdrop of severe budgetary pressures among many traditional donors.[22] As under Option 1, whenever demand exceeds the low case, additional resources could be mobilized through top-up fundraising and/or the temporary suspension of reimbursement to the GRA.

40. **Unless new concessional resources can be secured, access to the PRGT would need to be sharply curtailed after 2014, jeopardizing the Fund's ability to provide adequate support to LICs.** Adopting more stringent graduation criteria, to limit access to the PRGT to a smaller group of countries, could be one possible response. However, this would be unlikely to yield substantial savings over the near-to-medium term, as most LICs with larger quotas are still well below current income thresholds.[23] Hence, there would be no practical alternative but to scale back access substantially across all PRGT users to close the gap. To illustrate the trade-offs involved, in order to reduce demand to the existing PRGT

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[20] A 2008 Board decision specifies that, if a determination is made by the Fund that the resources of the PRGT are likely to be insufficient to meet anticipated demand for PRGT assistance and the Fund has been unable to obtain additional subsidy resources, the Fund should temporarily suspend annual reimbursements of the GRA for the operating expenses of the PRGT. The decision also provides that upon suspension, the Fund would engage donors with a view to restoring the sustainability of the PRGT (IMF (2008a)).

[21] Such an approach was proposed and discussed by the Board in March 2009; see IMF (2009b). While many Directors supported a more structured and periodic approach to fund-raising, others considered the current *ad hoc* approach appropriate.

[22] The current fundraising exercise for 2009–14 targets bilateral subsidy contributions of SDR 0.2–0.4 billion. However, despite the backing of the G-20 for this initiative, pledges have so far reached only the lower bound of this range, and a number of traditional contributors have not participated. The earlier fundraising exercise in 2005 for the establishment of the ESF, yielded total pledges of subsidy resources of SDR 211 million compared to a target of SDR 500 million.

[23] If graduation thresholds were reduced from 200 to 150 percent of the IDA threshold (and from 300 to 200 percent for small states) demand would only be around 15 percent lower in 2020 than under the baseline.

self-sustained envelope of SDR 0.7 billion per year, average access to PRGT resources would have to fall to 0.04 percent of eligible LICs' GDP, implying a decline of more than 60 percent relative to access over 2003–08 (the lowest demand period on record) and 75 percent relative to the expected access over 2009–14.

B. Access Policies, Financing Terms, and Blending

Current access levels in SDR terms remain on average broadly adequate for now, but there is scope for better targeting country-specific balance of payments needs. Given the resource constraints, access levels in terms of quotas will need to be reduced when the 14th quota review becomes effective. Existing PRGT financing terms appear on average broadly appropriate, although there may be merit in more differentiated terms to reflect LICs' differing economic circumstances, e.g., through greater use of blending.

Access

41. **Current access levels seem on average broadly appropriate in SDR terms, and future adjustments will depend in large part on available resources.** A large majority of country authorities and mission chiefs considered current access levels broadly appropriate. Access norms and limits remained broadly stable relative to indicators of demand, and demand has tended to be broadly symmetric around the norms. Looking ahead:

- *A concurrent lowering of access limits and norms in percent of quota would be called for when the 14th General Review of Quotas comes into effect.*[24] As quotas would double in SDR terms, there would be significant resource implications if access norms and limits were to remain unchanged in percent of quota. This would be difficult to justify given the doubling of access in 2009 and the PRGT's severe resource constraints discussed above. With current access levels in SDR terms on average striking an appropriate balance between resource constraints and demand, there would be a strong case for reducing access norms and limits in percent of quota by up to 50 percent when the 14th quota review becomes effective.[25]

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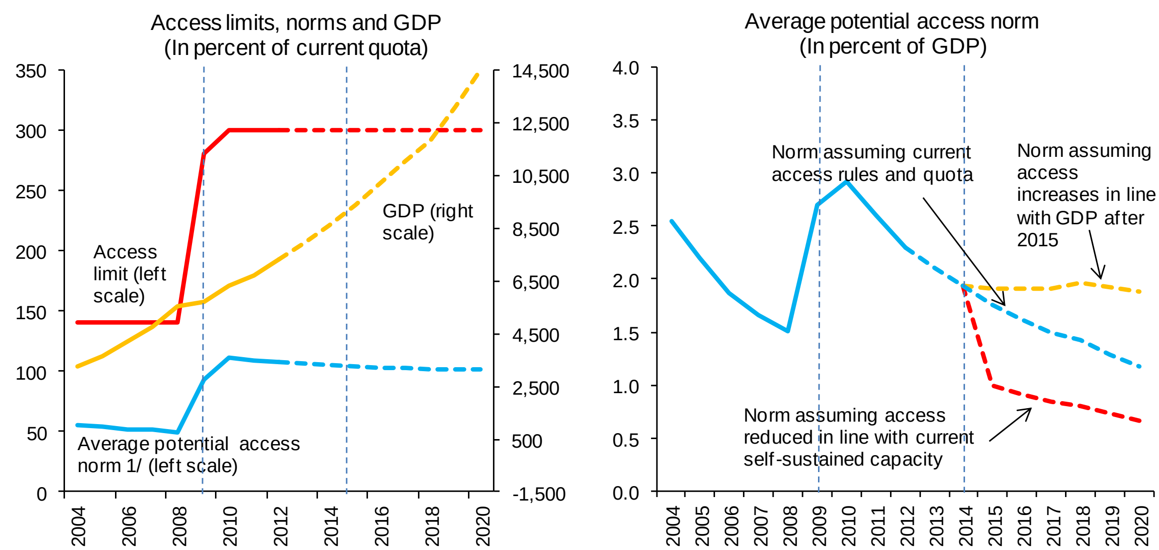
[24] The International Monetary and Financial Committee (IMFC) reaffirmed the urgency of making the 14th quota review effective by the 2012 Annual Meetings (see IMF (2012d).

[25] Past quota increases were accompanied by a broadly equivalent reduction in concessional access limits. In 1992, quotas increased by 50 percent in the context of the 9th quota review, and the concessional access limit was adjusted so that access in SDR terms increased only by 14 percent, while GRA annual access limit in SDR terms was kept broadly unchanged. When the 11th quota review became effective in 1999, quotas increased by 45 percent and the concessional access limit was adjusted to increase access in SDR terms by 7 percent. The 2009 changes in the access limits and norms for concessional borrowing aimed at restoring access limits to their 1998 levels relative to GDP, consistent with the approach that was taken in September 2008 to determine new access limits for GRA resources. See IMF (2009e).

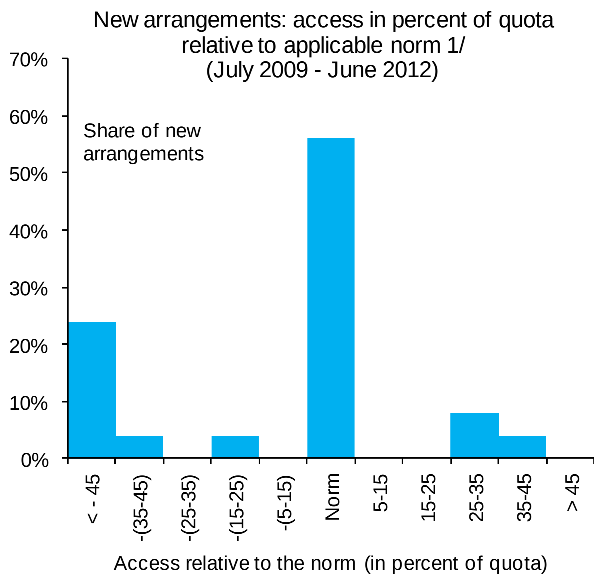
- *Resources permitting, access levels in SDR terms should be increased in the future to keep up with projected demand.* After the period covered by the 2009–14 financing package, access norms and limits in SDR terms would gradually erode relative to indicators of demand (such as eligible LICs' GDP and openness). Hence, there would be merit in adjusting access levels to ensure that LICs' needs can be met, although this would require that the longer-term resource gap of the PRGT can be addressed, as discussed in Section III.A. Conversely, if the self-sustaining capacity of the PRGT cannot be increased beyond the existing level, a cut of some 40 percent in access in nominal SDR terms may be needed to close the gap for the period 2015–20.

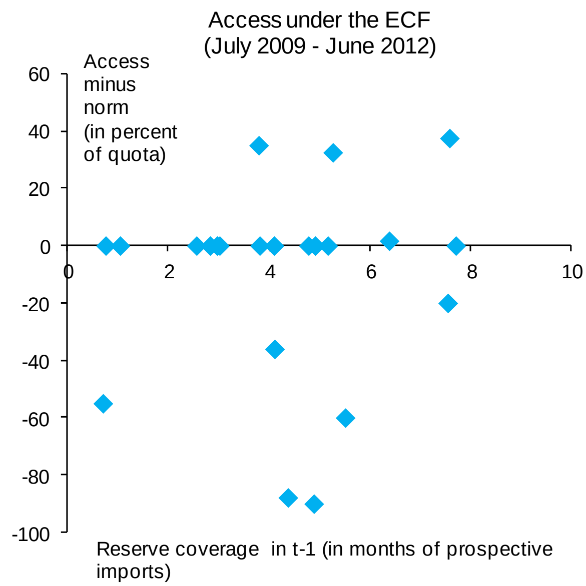


1/ Unweighted mean of the relevant ECF access norm available to each PRGT-eligible country based on the existing policies.

42. **There is scope for making more efficient use of the PRGT's scarce resources by better tailoring access to individual countries' balance of payments needs**. While the doubling of access limits, combined with the introduction of more flexible facilities, has increased the Fund's capacity to tailor its support to LICs' diverse needs, recent experience suggests that access may not have been as targeted to individual needs as may have been desirable, especially in light of the PRGT's very limited resources. Specifically:

- *The new access norms have exerted a strong gravitational pull*. Access has been at the relevant norm for more than half of all ECF arrangements approved after the reform, even though the access policy allows for flexibility around the norm and could in principle be applied in a more differentiated way. One reason may be that some country authorities are concerned about possible perceived stigma of an arrangement with access other than (especially below) the norm. The lack of differentiation raises questions as to whether Fund support is sufficiently targeted at individual balance of payments needs.





1/ New requests of ECF and SCF arrangements (excl. blends).

- *For arrangements involving blended PRGT-GRA financing, access to the concessional component has often been at or close to the limit.* There is no access norm for blends, but access to the concessional component is limited to 50 percent of quota on an annualized basis. In two recent cases, the concessional access component of the blend has been at the limit and thus significantly exceeded the norm for total access under PRGT-only arrangements. A related question is whether access and blending policies are sufficiently differentiated among LICs (see discussion of financing terms below).

- *In some cases, cumulative PRGT access limits may be overly restrictive.* While global access limits on PRGT resources have generally not been problematic so far, there have been a small number of cases where the cumulative access limit of 300 percent of quota has threatened to constrain financing to below levels commensurate with balance of payments needs and repayment capacity. While exceptional access is possible in principle, it has so far only been used in arrears clearance cases.

- *Similarly, the sub-limits on cumulative access to the RCF may unduly constrain the Fund's ability to respond to urgent financing needs in certain cases*. Sub-limits were introduced to ensure that the RCF was not misused through repeated access when an ECF arrangement would be a more appropriate instrument. Recent experience has highlighted that in some cases—small islands that are prone to frequent natural disasters and countries in fragile situations needing time to build capacity before moving to an ECF arrangement—the sub-limits on cumulative access under the RCF may prevent the Fund from providing appropriate support. Accordingly, there may be merit in raising the cumulative access limit on the RCF, e.g., from 75 to 100 percent of quota, and from 100 to 125 percent of quota to address exogenous shocks, while leaving annual sub-limits on access unchanged to limit moral hazard.[26]

Financing terms

43. **Financing terms of PRGT loans appear, on average, to strike the right balance between concessionality and lending capacity.** The Fund plays a unique role in leveraging its scarce subsidy resources to meet LICs' balance of payments needs through concessional credit. This implies a fundamental trade-off between the amount of liquidity support the Fund can provide and the concessionality of the loans. Record low global interest rates have reduced the grant element of PRGT loans to well below 35 percent, notwithstanding the Fund's zero interest policy.[27] In principle, the concessionality of PRGT loans could be increased by lengthening maturities to more than ten years. However, this would tie up scarce resources for a relatively long time with countries that may no longer face balance of payments needs and limit the Fund's ability to meet new balance of payments needs of other LICs that may have more pressing needs. In practice, most country authorities and mission chiefs considered the current PRGT financing terms broadly appropriate. Moreover, repayments to the Fund appear manageable with annual projected debt service below 0.8 percent of GDP in all LICs for the next five years.

44. **There is, however, scope for greater differentiation of financing terms according to countries' capacities and needs.** Financing terms are currently differentiated by the type of facility (with the SCF subject to somewhat lower concessionality than the ECF and RCF). In addition, the presumption of blending introduced in 2009 in effect hardens financing terms for higher-income LICs (with some exceptions, see Appendix II for details). However, given the significant diversity of LICs' economic circumstances, further differentiation of financing terms, in combination with access and blending policies, may be appropriate to support a more efficient use of the Fund's scarce concessional resources.

- With the exception of higher-income LICs that meet the presumption for blending, financing terms (and *de facto* access to PRGT resources based on norms and limits) are identical for the poorest and most vulnerable LICs and some of the most advanced LICs (e.g., including those that may even have some capital market access).

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[26] The need for more flexible use of the RCF by countries in fragile situations was discussed in detail in IMF (2011c). At the Board discussion of this paper, most Directors were open to considering the staff proposal to increase the cumulative sub-limit on access under the RCF (See IMF 2011d).

[27] The 2009 reform included a new interest rate mechanism that implies an average grant element of PRGT lending of around 35 percent under "normal" world interest rates, and smoothes concessionality as world interest rates fluctuate, see Appendix III for details.

- Financing terms are not linked to the amount of total access. This implies that higher-access requests remain fully subsidized and have an accordingly large negative impact on the concessional resources available to other LICs.

Options for better tailoring access and financing terms to individual needs and capacities

45. **Contingent tranches could help align disbursements more closely to actual balance of payments needs while keeping access levels on average broadly unchanged.** A possible refinement to access policies would be to set the access norm for ECF and SCF arrangements at an appropriate base level, and define a pre-specified (relatively low-access) tranche that can be activated in the event of an urgent unforeseen balance of payments need, without a review if the program is on track.[28] Such a contingent tranche would in effect add an element of precautionary finance to a disbursing arrangement that would allow for modest but rapid additional financing to meet urgent unexpected needs that may arise in countries with Fund-supported programs.[29] In cases where access under the tranche proves insufficient, e.g., when major or multiple shocks occur, it would still be possible to augment access in the context of a review. Contingent tranches could be designed to be broadly cost neutral, by setting the base access norm and contingent access in a way that average access across countries (i.e., taking into account that not all countries would need to draw on the contingent tranche) would remain broadly unchanged.

46. **Greater differentiation of financing terms—through blending or interest rates—could help promote a more efficient use of the PRGT's scarce resources**. In particular, the interest rate for the poorest and most vulnerable LICs could be set to zero, given their uncertain economic prospects. The cost of this measure, which would otherwise lower the lending capacity of the PRGT, would need to be offset.[30] This could be achieved, for example, by complementing the existing presumption for blending of higher-income LICs by reducing or eliminating the subsidization of access above a certain level (e.g., when access exceeds the applicable norm or limit) for other LICs that are not in the poorest and most

[28] As with other forms of precautionary finance, a rule would be needed to determine how long the contingent tranche would remain available relative to completed and scheduled reviews and test dates.

[29] Such rapid financing to meet urgent unexpected needs is already available to non-program LICs through the RCF, while currently, an augmentation and disbursement of the additional amounts for ECF and SCF users would require completion of the next scheduled review (and observance of related PCs).

[30] The near-term resource impact would be very limited as the temporary interest rate waiver on PRGT loans extends through end-December 2012, the applicable interest for 2013 would be: zero percent for all ECF and RCF loans; 0.25 percent for SCF loans; existing ESF loans and subsidized ENDA/EPCA credits. Over the longer run, the cost of this measure would depend on the demand from LICs in the most vulnerable group and on prevailing interest rates. To give an order of magnitude, applying a zero rate to *all* PRGT lending could lower the self-sustaining lending capacity of the PRGT by about 10 percent.

vulnerable group and have adequate debt service capacity.[31] The approach could be implemented in two ways:

- *Interest rate surcharges for less vulnerable LICs.* An interest surcharge on access amounts exceeding a certain level could apply to all LICs except the poorest and most vulnerable. Additional surcharges could be applied for exceptional access.

- *Broadening the presumption of blending.* The blending policy could include an additional presumption that access above a certain level would be provided through blended financing except for the poorest and most vulnerable countries.[32]

47. **While both approaches toward differentiation of financing terms have their merits, greater use of blending has a number of unique advantages**. Interest surcharges and blending would both rebalance use of subsidies toward the poorer and more vulnerable LICs and support more equitable use of concessional resources by limiting subsidization of higher-access cases. However, expanding the use of blending could also (i) conserve PRGT loans resources; (ii) provide more flexibility when PRGT access limits constrain the ability to meet the financing needs of higher capacity countries; (iii) promote differentiation of access to the PRGT according to countries' capacities and income levels. One drawback of blending would be that effective financing terms would fluctuate alongside the SDR interest rate, creating uncertainties for borrowers. Conversely, PRGT surcharges could create operational difficulties as they would require differentiating interest rates for the same facility across sub-groups of borrowers while country classifications change over time.

Debt relief

48. **Some observers have suggested that the Fund consider providing additional debt or debt service relief.** Flexible repayment terms, such as loans with a floating grace period

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[31] To ensure uniformity of treatment, hardened terms would need to be applied according to country-specific criteria—such as per capita income, market access, institutional capacity, and debt sustainability—that are relevant to the purposes of the PRGT. The implied operational complexities would need to be considered carefully.

[32] The modalities of the blending policy, as well as applicable access norms, would need to be overhauled. For the higher-income/market access countries that are currently presumed to use blended financing, the policy could remain broadly unchanged, though possibly with somewhat lower concessional access, while the poorest and most vulnerable LICs would continue to receive fully subsidized credit. For the other countries, two broad approaches could be considered: One option would be to retain fully concessional access up to the applicable norm, and provide any additional access through the GRA. This would keep financing terms identical for all LICs with income below the IDA cutoff, while differentiating effective terms at relatively high levels of access. Another option would be to provide a basic level of fully concessional access below the norm and then provide additional access through blended financing. Depending on the details of the approach, it may be possible to use the savings from expanded use of blending to extend permanent zero interest beyond the most vulnerable group.

as recently introduced by the Agence Française de Développement (AFD), can help mitigate debt service risks in the face of potential exogenous shocks. However, flexible repayment terms would raise a number of operational and legal difficulties for the Fund, in particular in the context of comparatively short repayment periods and the revolving nature of IMF credit. They are also not efficient tools for the Fund, given the unique nature of its financial support, which is calibrated according to a country's overall financing needs and thus generally better targeted than debt service deferral.[33] Outside the HIPC Initiative, the Fund can join international debt relief efforts in the wake of catastrophic natural disasters.[34] Outside observers have suggested expanding the PCDR to also cover situations where multilateral debt relief would be essential to restore sustainability after bilateral relief efforts have been exhausted. However, this raises a number of policy issues. For example, it is difficult to define such situations ex ante and to set aside resources for such contingencies. Moreover, an anticipation of debt relief could be seen as sitting uneasily with the Fund's preferred creditor status. One refinement to the toolkit that would enhance transparency, however, is a clarification of the circumstances under which the Fund would consider across-the-board interest relief, as was done during the 2009–12 crisis period.

C. Precautionary and Policy Support

Given persistently high global risks and volatility, improving the F*und's ability to meet LICs' increased demand for contingent financing and policy support would help reduce their reliance on costly self-insurance. However, any modifications of the toolkit in this area should be designed to limit the need for additional resources.*

49. **As LICs have become increasingly exposed to global risks and volatility, their needs with respect to precautionary and policy support have evolved.** LICs' vulnerability to global volatility has increased, as they have continued to integrate into international markets, global commodity prices have become more volatile, and the global economic outlook subject to severe downside risks. In this environment, contingent financing can help insure LICs against sudden shocks, in particular those countries that have become increasingly reliant on private capital inflows. In addition, IMF policy support can help

[33] See IMF (2011f) for an in-depth discussion. Deferred repayment loans, where debt service is delayed automatically for a certain number of years when a pre-specified shock occurs, provide in effect a form of temporary liquidity support. However, the degree of this support would depend on the amount of debt service, rather than overall financing needs, in the particular year. Deferred repayment is therefore generally less tailored to actual needs than IMF balance of payments support.

[34] Under the Post-Catastrophe Debt Relief (PCDR) Trust, the Fund can provide debt stock relief only as part of a multilateral debt relief effort when poor countries are hit by catastrophic natural disasters, such as in the wake of the devastating earthquake in Haiti in 2010. See IMF (2010c).

countries build stronger macroeconomic frameworks that facilitate donor support and private investment flows and enable robust domestic policy responses in the event of shocks.

50. **Notwithstanding recent reforms, there may be scope for further strengthening the Fund's ability to meet LICs' needs for contingent financing and policy support**. The creation of the precautionary SCF provides a measure of contingent financial support, and the PSI is available to provide policy support to advanced LICs while facilitating access to financial assistance when needed.[35] While helpful, however, these instruments appear to have left some needs at least partially unmet:

- One possible issue relates to program engagement with LICs that may not have immediate financing needs but nonetheless face protracted balance of payments problems as a result of structural and institutional weaknesses. Under current provisions, these countries would not qualify for the PSI or SCF. The low-access ECF has been used in these circumstances in the past, but as survey responses have revealed, is now seen as a negative, rather than positive signal, especially since the creation of the PSI.

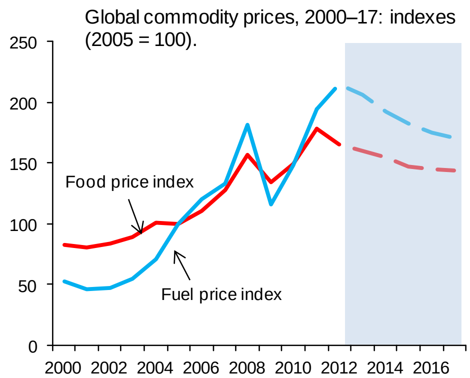
- Countries that do not face protracted balance of payments problems or immediate financing needs can use the SCF on a precautionary basis. However, such use is subject to several constraints: (i) the 2.5-out-of-5-year limit on the use of the SCF constrains the Fund's ability to provide precautionary support during periods of protracted global risks (Honduras and Solomon Islands are bumping up against this limit); (ii) the 50 percent of quota annualized access limit is low, considering that RCF support of up to 50 percent of quota can be provided in the event of exogenous shocks with much lower conditionality; and (iii) the availability fee in the context of the current exceptional interest relief implies that treating an SCF arrangement as precautionary is more expensive than drawing.

[35] For countries without UCT quality policies, the Fund cannot provide ex-ante financing commitments but can offer low-access rapid financing through the RCF in the event that an urgent balance of payments need arises.

Box 1. Contingent Support for LICs

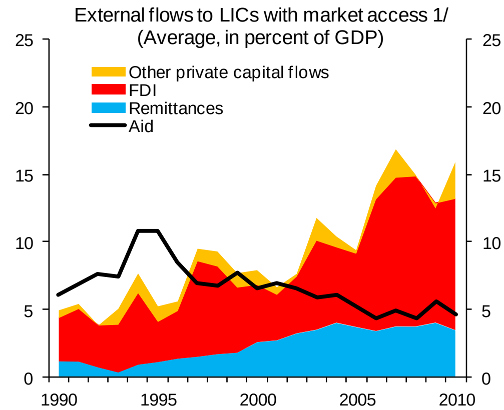
Most LICs have continued to increase their global linkages through trade, remittances, and FDI, with a few even tapping international capital markets on a significant scale. This has made LICs also more vulnerable to global risks and volatility. A case in point is the 2009 global crisis, which caused the sharpest synchronized decline in LICs' growth in at least four decades. LICs are also generally more exposed than other countries to shocks such as natural disasters and to the increasing volatility of global commodity prices. Such shocks can translate into lower growth, higher poverty, and fiscal, debt, and external pressures that complicate macroeconomic management and threaten development spending. In the coming years, LICs may face a protracted period of heightened risks and volatility.[1/] This may be particularly problematic for those LICs that have become increasingly reliant on foreign direct investment and other private capital flows.

Global commodity prices have been on a rollercoaster ride and are projected to stay elevated.



Source: World Economic Outlook.

LICs with market access increasingly rely on private capital flows.



1/ Countries with cumulative public external borrowing in 2005-09 exceeding 50 percent of quota.

LICs have historically dealt with adverse shocks through ex post adjustment, financing, and use of existing fiscal and reserves buffers.

- While ex post financing can be tailored to cope with the fallout of a shock, qualification is not guaranteed, and access to substantial resources requires time to agree on a program of policy adjustment and reform.
- Self-insurance through reserve build up does not have these drawbacks but is inefficient from an international perspective as it ties up resources that could be better invested in infrastructure or improving social outcomes in all LICs.

An alternative approach to coping with adverse shocks is to secure financing *ex ante*. Contingent financing instruments have the advantage of having well-defined triggers, which enhance predictability of financial support, increasing the space to undertake essential development spending (by reducing the need to hold large buffers). However, ex ante financing is also generally less tailored to the eventual shock and requires careful design to avoid moral hazard. A recent Bank-Fund paper argued that enhancing availability of contingent financial instruments could be an important complement to LICs' toolkit for addressing shocks.[2/]

1/ See Fabrizio (2011).

2/ See IMF (2011f).

- A question has also arisen as to whether the toolkit fully meets the needs of the most advanced LICs that have a record of sound macroeconomic performance and are relatively integrated into global markets. The PRGT does not have an instrument—along the lines of the Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL) in the GRA—that can provide a relatively high level of upfront contingent access, send a strong signal to investors and donors, while relying on conditionality that emphasizes ex-ante qualification criteria and provides more flexibility in program monitoring than has been the practice under precautionary SBAs or SCF arrangements. While the PSI sends a clear positive signal, it also involves stringent conditionality and does not provide automatic access to financing.

51. **Any possible enhancements in this area would need to be carefully designed to minimize pressures on PRGT resources.** Feedback from LIC authorities and mission chiefs indicated an interest in IMF precautionary support in about one-fifth of LICs, especially in light of their increased exposure to global risks. As discussed in Box 1, contingent (i.e., ex ante) financing has some advantages over ex post financing, notably in terms of predictability and promptness. Precautionary support can be efficient from an international perspective to the extent that it reduces LICs' need to rely on costly self-insurance through reserve build up, which could tie up domestic resources for poverty reduction and growth. While use of precautionary instruments ties up additional PRGT loan and subsidy resources for the duration of approved arrangements, the resources would become available again if no actual balance of payments needs arise during the arrangement.[36] If appropriately designed, it is possible that actual subsidy costs resulting from use of a contingent financing instrument would not be much larger over the longer term than those that would have arisen if the country had relied instead on ex post IMF support, e.g., by requesting a disbursing SCF in the event of a shock.[37]

52. **Creating a new precautionary instrument could be one way to enhance support for the most advanced LICs, but would be problematic in the current context of limited concessional resources.** Qualification for a "top-tier" precautionary instrument would by its

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[36] The risk of tying up scarce PRGT resources for contingent financing was one of the considerations that resulted in the Executive Board agreeing on a sub-limit to the precautionary use of the SCF in 2009.

[37] One important design feature of IMF precautionary support is a requirement that all drawings be subject to an explicit representation by the member that it has an actual balance of payments need at the time of disbursement, with the possibility of ex post remedial measures when drawings are made in the absence of such a need. This can help address concerns arising from countries' incentives to draw on a precautionary facility with subsidized credit irrespective of financing needs. Moreover, this concern can also be mitigated to some extent by the negative signal that such drawing would send. The above may help explain why no drawings have so far been made under any of the three precautionary SCFs. Similar incentives also apply, to a lesser extent, in the GRA where borrowing costs are typically below representative market rates, but most precautionary SBAs have still not resulted in drawings.

nature have to be limited to the most advanced and globally integrated LICs, who would likely seek relatively high levels of upfront access. However, allocating a greater share of scarce concessional funds to these countries may not be the best use of resources, and could potentially crowd out the Fund's ability to provide more traditional support. While providing resources on hardened terms would help reduce this tension, the two options that could be considered both face significant obstacles: (i) the new instrument could in principle be blended with GRA resources, although it may be difficult to identify an appropriate instrument;[38] (ii) resources could be drawn fully from the PRGT, but with minimal or no subsidization of interest beyond a threshold access level. However, if the resulting increase in PRGT credit was substantial, it could reduce capacity to provide other forms of support.[39] Moreover, creating such a new instrument would pose difficult operational and design challenges, including the delineation from existing instruments.

53. **A more feasible approach would be to increase the flexibility of the current facilities.** This would leave the architecture of LIC facilities intact and limit the need for additional resources. Specific options could be considered under this approach:

- Relaxing the access and timing restrictions on the SCF, by not counting arrangements without drawings against the 2.5-out-of-5-year limit, would allow the Fund to provide precautionary support in periods of protracted uncertainty without undermining the principle of maintaining the episodic nature of SCF disbursements. This could be combined with a somewhat higher annualized access limit, e.g., 75 percent of quota, and more explicit recognition of the ability to frontload access.

- Refining the ECF to enhance its precautionary and policy support function could involve: (i) introducing pre-specified contingent tranches as proposed in Section III.B, or allowing augmentations between reviews (e.g., up to the RCF access limit); and/or (ii) giving ECF users the option of eschewing disbursements when the member's balance of payments position improves during the arrangement period,

[38] The market access requirement of the PLL is highly unlikely to be met by LICs, since it is generally not consistent with PRGT eligibility (although graduation from PRGT eligibility may be delayed for countries with market access if they face serious short-term vulnerabilities). Blending with a precautionary SBA would theoretically be possible, but not ideal, given the weaker signal on policy standards and distinct modalities. One option could be to create a window under the PLL—with somewhat weaker qualification criteria and lower access, and available to all Fund members that qualify for it—although this would need to be based on a rationale for enhancing options under the GRA for all members beyond the currently available tools.

[39] To provide adequate security to PRGT lenders and note purchasers, it is expected that the PRGT Reserve Account would continue to provide a loan coverage ratio of about 40 percent in the medium term, in line with the historical average.

thereby allowing countries to build a buffer of access to draw on later in the event of unforeseen needs.[40]

- Providing automatic access to finance for PSI users is not possible without making the PSI in effect a financial facility—which is subject to the same difficulties as creating a new contingent financing instrument discussed above. However, to ensure that the PSI will continue to be useful to members, it may be desirable to enhance the flexibility of review schedules, reduce PRS documentation requirements (along the lines discussed in Section III.D), and/or abolish Assessment Criteria (ACs). The pool of potential users of the PSI could be marginally broadened by basing qualification more on the sustainability of macroeconomic policies, and less on broader measures of institutional capacity and development.

D. Design of PRGT Arrangements

Many members utilized the increased flexibility under the 2009 reforms, but recent experience has highlighted a few areas where streamlining and greater flexibility could enhance the Fund's ability to respond effectively to members' needs.

PRS linkages

54. **Surveys of country authorities and staff reveal that PRS documentation requirements may still involve procedural hurdles that hamper, rather than support, program implementation.** The completion of ECF and PSI reviews, starting with the second review, requires that a PRS document has been issued to the Board, normally within the previous 18 months. In effect, this makes the production of Annual Progress Reports (APRs) a requirement for Fund support. This can be problematic as the production of such reports has become cumbersome in many countries. In some cases, the procedural difficulties in meeting PRS requirements have resulted in the delay of on-track reviews or rushing of the PRS process, which can undermine the substantive goal of linking Fund-supported programs to country-owned strategies. It may also prevent urgently needed financial assistance if no updated APR exists even when a full PRSP covering the program period exists. This

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[40] Several mission chiefs suggested going a step further by allowing full precautionary use of the ECF from the outset. However, this may raise broader questions about a long-standing principle of the Fund's support to LICs, i.e., the presumption that countries with "protracted balance of payments problems" would always be expected to have an actual or projected financing need over the course of an ECF arrangement, rather than purely potential needs. While in principle members could declare their intention not to draw on the ECF, e.g., when their projected financing needs are expected to be met through exceptional financing from other sources, the Fund has discouraged members with ECF arrangements from eschewing available disbursements since this would tie up scarce concessional resources for an extended period.

particular requirement also seems hard to justify as the strict link between PRS documents and individual disbursements does not exist at the World Bank (Box 2).

Box 2. PRS-Related Requirements for World Bank Group Support

The World Bank requires that countries have a strategy to meet their development goals as a basis for the Bank to prepare a Country Assistance Strategy (CAS). The 2012 CAS Guidelines specify that "it is expected that CASs for IDA-eligible (i.e., IDA-only and -blend) countries be preceded by—and presented to the Board following—the PRSP on which they are based." For a country that is not ready for a CAS, the Bank may prepare an Interim Strategy Note (ISN), which normally covers a period of 12 to 24 months, until a CAS can be prepared.

However, there are no PRS documentation requirements for disbursement of financial assistance (project or budget loans or grants). Countries that are seeking debt relief under the HIPC Initiative have PRSP requirements that are identical to those required by the IMF.

55. **There is merit in considering changes that would refocus PRS linkages on substance rather than process.** Given the institutional and policy linkages associated with PRS requirements, there may be merit in conducting a comprehensive joint IMF/World Bank study to address existing shortcomings. While a joint study will likely take considerable time, an *interim* option for addressing IMF-specific issues could be considered. In particular:

- To strengthen the substantive link between Fund-supported programs and the PRSP, the requirement for completion of a review under an ECF arrangement and PSI could be met by including a detailed description in the Letter of Intent (LOI) or Memorandum of Economic and Financial Policies of how the country's current or future budget, depending on the budget cycle, and planned structural reforms advance PRS implementation. This option would be used only when, at the time of the review, a full PRSP is already in place and covering the relevant period.

- To support the Board's efforts to move toward greater use of lapse of time procedures (LOT), the policy on Joint Staff Advisory Notes (JSANs) could be changed to allow JSANs to be submitted for information, rather than discussion, when combined with a LOT program review or Article IV consultation, or as a stand-alone paper when no Board documents are expected within four months after the issuance of the JSAN.

Lapse of defunct arrangements

56. **Under current rules, ECF and SCF arrangements cannot be terminated early unless the member requests so**. This is in marked contrast to the PSI which terminates automatically upon non-completion of two consecutive reviews (or after 12 months with no review if used concurrently with the SCF). This has led to situations where programs went off track soon after approval, but the arrangement remained in place for a long time without

any disbursements. Until the arrangement naturally expires or the authorities request a cancelation, there is no clear signal that a program is not performing and that its design has become obsolete with unrealistic objectives.[41] Moreover, protracted delays for programs that are unlikely ever to come back on track tie up scarce PRGT resources that could be made available to other PRGT-eligible country members.

57. **A new framework to address defunct programs could strengthen the signal of Fund engagement, provide an incentive for countries to bring programs back on track, and free up scarce resources for other countries**. It would also reduce reputational risks when programs go off track after adverse political developments. One option would be to notify members when no review has been completed over the past 12 months, indicating that the arrangement will expire in six months unless the program is brought back on track, including by reaching new understandings on appropriate policies based on the member's updated circumstances. Since 2009, six ECF arrangements would have been affected if such a "lapse" rule had been applied; in none of these was more than one review completed following approval of the arrangement. This proposal would represent a stricter approach than the one followed for arrangements under the GRA, but may be justified in light of the scarcity of concessional resources.

Length of ECF arrangements

58. **An ECF arrangement can only be approved for an initial period of three years, with consideration of extensions for up to two additional years at a later date.** The option to extend for up to two years (rather than one) was part of a package under the 2009 reform intended to provide greater flexibility to members in implementing their programs. However, since 2010, there have been 23 requests for extensions of ECF arrangements, with multiple requests for the same program resulting in extensions of about one year, on average. Despite the doubling of the potential period of the extension, the average number of days for ECF extensions has remained almost unchanged.

59. **There may be merit in giving an option for arrangements with longer initial durations.** In a few countries, this option might allow better tailoring the ECF-supported program to the PRSP, which often spans a five year period. Moreover, in view of the increasing use of blended financing, this may also allow for more flexibility in aligning a concurrent ECF-EFF arrangement.[42] Resource implications would likely be limited as ECF arrangements are already often extended, augmented, and used repeatedly. In addition, the

[41] Arrangements expire without any further action by the authorities or by the Executive Board once all disbursements have been made or if the arrangement period ends.

[42] See IMF (2012b).

above proposal of terminating defunct arrangements could limit the risk of tying up resources for prolonged periods in such cases.

Phasing of disbursements

60. **The timing of reviews could be better tailored to country circumstances.** Currently, disbursements under ECF and SCF arrangements must be phased at semiannual intervals, with associated reviews and conditionality, unless closer monitoring is needed, in which case quarterly reviews and disbursements are possible. Other frequencies of monitoring (e.g., three times a year, or at varying intervals) are not permissible. To allow more flexible tailoring of reviews to country circumstances, the phasing of disbursements could be fully flexible with the sole condition that they be at least semi-annual.

IV. Issues for Discussion

61. As part of a two-stage process of the LIC facilities review, this paper presented preliminary experience and findings, and sketched broad options for possible refinements and enhancements (see Box 3 for a summary). A second Board paper with more specific proposals will be prepared based on feedback from Executive Directors.

- Do Directors agree that the new architecture of LIC facilities is broadly appropriate, and that the Fund was largely able to meet the needs of LIC members in recent years?

- Do Directors agree that a sustainable concessional financing framework will require securing substantial additional subsidy resources while making the most efficient use of available resources? Which of the approaches set out in Section III.A would they consider the most promising avenue to explore with a view to ensuring the longer-term sustainability of the PRGT?

- Do Directors view current average access levels in SDR terms as broadly appropriate? Do Directors agree that access in terms of quota will need to be reduced when the 14^{th} quota review becomes effective?

- Do Directors agree that even with additional subsidy resources, greater tailoring of access and financing terms to country-specific needs and capacities would make the use of Fund resources more efficient? If so, which of the options set out in Section III.B would be worth exploring?

- Do Directors agree that there is merit in strengthening the Fund's ability to provide contingent financing to LICs to limit their need for self-insurance? If so, which of the broad approaches set out in Section III.C would be the most promising?

- Do Directors see merit in exploring the modifications to the design of PRGT arrangements that would make them more flexible, set out in Section III.D?

Box 3. Summary of Possible Refinements	
Main Objectives	**Main Refinements for Consideration**
Creating a sustainable concessional financing framework beyond 2014	Two main options for raising additional resources: (i) Use additional gold windfall profits, *or* (ii) Regular large-scale fundraising Supplemented by contingent mechanisms when demand exceeds supply, e.g. temporary suspension of GRA reimbursement subject to the terms of the relevant Board decision Maintain access in SDR terms broadly unchanged for now, including by halving access in quota terms when the 14th review of quotas becomes effective. Periodically increase access in the future as demand rises in SDR terms, resources permitting.
Making the most efficient use of the PRGT's resources by tailoring access and financing terms to LICs' diverse needs and capacities	(i) Supplement base level of ECF/SCF access with contingent tranches for unexpected urgent needs (ii) More concessional terms for the poorest and most vulnerable LICs and greater use of blending for higher-access requests of other countries (iii) Modest relaxation of cumulative RCF sub-limit
Enhancing LICs' access to contingent financing and policy support while limiting use of additional subsidy resources.	(i) Relax limits on SCF (ii) Make PSI more flexible (iii) Refine options for ECF use
Streamlining and enhancing operational flexibility under PRGT arrangements	(i) When PRSP exists, tie reviews to MEFP's discussion of PRS-program linkages, as an alternative to an Annual Progress Report (ii) Allow LOT consideration of JSANs (iii) Framework for terminating defunct arrangements (iv) Provide options for longer initial duration of ECFs (v) Allow more flexible phasing of disbursements

Table 1: IMF Facilities and Instruments in Place; 2000–12 1/ 2/

(As of end-June, 2012)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Afghanistan					SMP.	SMP.	SMP.ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.
Albania 3/	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF-EFF.	ECF-EFF.	ECF-EFF.	ECF-EFF.			
Angola 3/										SBA.			
Armenia		ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.SBA.	SBA.ECF-EFF.	ECF-EFF.	ECF-EFF.
Azerbaijan 3/	ECF-EFF.	ECF.	ECF.	ECF.	ECF.	ECF.							
Bangladesh				ECF.	ECF.	ECF.	ECF.	ECF.	ENDA.				ECF.
Benin	ECF.ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.
Bhutan													
Bolivia	ECF.	ECF.	ECF.	SBA.	SBA.	SBA.	SBA.						
Burkina Faso	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.
Burundi			EPCA.	EPCA.EPCA.	ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	ECF.ECF.
Cambodia	ECF.	ECF.	ECF.	ECF.									
Cameroon	ECF.ECF.	ECF.	ECF.	ECF.	ECF.	SMP.ECF.	ECF.	ECF.	ECF.	ECF.RAC.			
Cape Verde	SBA.		ECF.	ECF.	ECF.	ECF.	PSI.	PSI.	PSI.	PSI.	PSI.PSI.	PSI.	PSI.
Central Afr.Rep.	ECF.	ECF.	ECF.		EPCA.	EPCA.	EPCA.ECF.	ECF.	ECF.	ECF.	ECF.		ECF.
Chad	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	SMP.	SMP.		
Comoros						SMP.	SMP.		EPCA.RAC.	EPCA.RAC.ECF.	ECF.	ECF.	ECF.
Congo, Dem. Rep. of			ECF.	ECF.	ECF.	ECF.	ECF.SMP.	SMP.	SMP.	RAC.ECF.	ECF.	ECF.	ECF.
Congo, Rep. of	EPCA.	EPCA.			ECF.	ECF.	ECF.	ECF.SMP.	ECF.SMP.ECF.	ECF.	ECF.	ECF.	
Cote d'Ivoire	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.		EPCA.	EPCA.EPCA.	ECF.	ECF.	ECF.RCF.ECF.	RCF.ECF.
Djibouti	ECF.	ECF.	ECF.	ECF.		SMP.			ECF.	ECF.	ECF.	ECF.	ECF.
Dominica			SBA.	SBA.ECF.	SBA.ECF.	ECF.	ECF.		ENDA.	RAC.	RAC.		RCF.
Eritrea													
Ethiopia		ECF.	ECF.	ECF.	ECF.					RAC.ESF.	ESF.		
Gambia, The	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.SMP.	SMP.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.
Georgia		ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	SBA.	SBA.	SBA.	SBA.	SBA-SCF.
Ghana	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.			ECF.	ECF.	ECF.	ECF.
Grenada				ENDA.	ENDA.	ENDA.	ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.
Guinea	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	SMP.	SMP.	ECF.	ECF.	ECF.	ECF.	SMP.	ECF.
Guinea-Bissau	EPCA.EPCA.ECF.	ECF.	ECF.	ECF.		SMP.	SMP.		EPCA.EPCA.	EPCA.EPCA.	ECF.	ECF.	ECF.
Guyana	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.						
Haiti				SMP.	SMP.	EPCA.EPCA.	EPCA.ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.
Honduras	ECF.	ECF.	ECF.		ECF.	ECF.	ECF.	ECF.	SBA.	SBA.	SBA-SCF.	SBA-SCF.	SBA-SCF.
India 3/													
Kenya	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	ECF.		RAC.		ECF.	ECF.
Kiribati													
Kyrgyz Republic	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.ESF.	ESF.	ESF.RCF.	RCF.ECF.	ECF.
Lao PDR		ECF.	ECF.	ECF.	ECF.	ECF.							
Lesotho		ECF.	ECF.	ECF.	ECF.						ECF.	ECF.	ECF.
Liberia							SMP.	SMP.	ECF-EFF.	ECF-	ECF-	ECF-	ECF-
Madagascar	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.			
Malawi	ECF.	ECF.	ECF.ENDA.	ECF.ENDA.	ECF.	ECF.	ECF.	ECF.	ECF.ESF.	ESF.	ECF.	ECF.	ECF.
Maldives						ENDA.				SBA-ESF.	SBA-ESF.	SBA-ESF.	SBA-
Mali	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.
Mauritania	ECF.	ECF.	ECF.	ECF.	ECF.		SMP.ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.
Moldova	EFF.ECF.	ECF.	ECF.	ECF.			ECF.	ECF.	ECF.	ECF.	ECF-EFF.	ECF-EFF.	ECF-EFF.
Mongolia	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.				SBA.	SBA.		
Mozambique	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.PSI.	PSI.	PSI.ESF.	PSI.ESF.PSI.	PSI.	PSI.
Myanmar													
Nepal				ECF.	ECF.	ECF.	ECF.	ECF.			RCF.		
Nicaragua	ECF.	ECF.SMP.	ECF.ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	
Niger	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	ECF.

Table 1: IMF Facilities and Instruments in Place; 2000–12 1/ 2/ (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nigeria	SBA.	SBA.				PSI.	PSI.	PSI.					
Pakistan 3/	ECF-EFF.SBA.	SBA.ECF.	ECF.	ECF.	ECF.				SBA.SBA.	SBA.SBA.			
Papua New Guinea	SBA.	SBA.											
Rwanda	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	PSI.	PSI.	PSI.
Samoa										RAC.	RAC.		
Sao Tome & Principe	ECF.	ECF.	ECF.SMP.	ECF.		ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.
Senegal	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	PSI.	PSI.ESF.	PSI.ESF.	PSI.ESF.PSI.	PSI.	PSI.
Sierra Leone	EPCA.EPCA.	EPCA.ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.
Solomon Islands											SCF.	SCF.SCF.	SCF.
Somalia													
Sri Lanka 3/		SBA.	SBA.	ECF-EFF.	ECF-EFF.	ECF-EFF.ENDA.	ECF-EFF.			SBA.			
St. Lucia										RAC.	RAC.	ENDA.RCF.	
St. Vincent & The Grenadines										RAC.		RCF.RCF.	RCF.
Sudan			SMP.	SMP.		SMP.	SMP.	SMP.	SMP.SMP.	SMP.	SMP.		
Tajikistan	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.		SMP.	ECF.	ECF.	ECF.	ECF.
Tanzania	ECF.ECF.	ECF.	ECF.	ECF.ECF.	ECF.	ECF.	ECF.	ECF.PSI.	PSI.	PSI.ESF.	PSI.ESF.PSI.	PSI.	PSI.
Timor-Leste													
Togo							SMP.	SMP.	ECF.	ECF.	ECF.	ECF.	
Tonga													
Uganda	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.PSI.PSI.	PSI.	PSI.	PSI.	PSI.PSI.	PSI.	PSI.
Uzbekistan													
Vanuatu													
Vietnam		ECF.	ECF.	ECF.	ECF.								
Yemen	ECF-EFF.	ECF-EFF.	SMP.								ECF.	ECF.	ECF.RCF.
Zambia	ECF.	ECF.	ECF.	ECF.SMP.	SMP.ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	ECF.	
Zimbabwe													

1/ Indicates facility or instrument in place in a given year. Use of multiple facilities and/or instruments in a single year is shown with a period separator. Blends are hyphenated. ENDA, EPCA, RAC, and RCF support is shown for a period of six months after their approval.

2/ ECF: Extended Credit Facility (prior to 2010: Poverty Reduction and Growth Facility); SCF: Standby Credit Facility; RCF: Rapid Credit Facility; PSI: Policy Support Instrument; SMP: Staff-Monitored Program; ESF: Exogenous Shocks Facility (High Access Component); RAC: Exogenous Shocks Facility (Rapid Access Component); EPCA: Emergency Post Conflict Assistance; ENDA: Emergency Natural Disaster Assistance; SBA: Stand-By Arrangement; EFF: Extended Fund Facility.

3/ In 2010, six countries graduated from the PRGT-eligible group: Albania, Angola, Azerbaijan, India, Pakistan, and Sri Lanka.

Table 2. Facilities and Instruments in Place for Current PRGT-Eligible Countries; 2000–12
(As of end-June 2012)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Count of countries with LIC facilities or instruments in place, by instrument group 1/													
Currently PRGT-eligible	40	44	44	45	43	42	40	37	40	48	48	43	42
ECF 2/	33	41	42	42	40	36	34	30	28	27	31	31	29
o/w blends	1	1	-	-	-	-	-	-	1	-	2	2	2
SCF group 3/	-	-	-	-	-	-	-	-	1	6	8	3	3
o/w blends	-	-	-	-	-	-	-	-	-	1	2	2	2
o/w ESF-HAC	-	-	-	-	-	-	-	-	3	7	6	1	-
o/w precautionary	-	-	-	-	-	-	-	-	-	-	1	2	3
RCF group 4/	3	1	1	2	2	4	2	1	5	10	4	2	3
o/w ESF-RAC	-	-	-	-	-	-	-	-	1	9	3	-	-
o/w ENDA	-	-	1	2	1	2	-	-	2	-	-	1	-
o/w EPCA	3	2	1	1	1	2	2	1	3	2	-	-	-
PSI	-	-	-	-	-	1	3	6	5	5	6	6	6
o/w with financing	-	-	-	-	-	-	-	-	1	3	3	-	-
Memo items:													
Stand-alone SBA or EFF	4	2	1	1	1	1	1	-	2	3	2	1	1
SMP	-	1	3	3	3	8	10	5	4	2	2	1	-
Graduate LICs 5/	3	4	4	4	4	3	2	1	2	4	-	-	-
Total LIC facilities (all PRGT-eligible at the time)	43	48	48	49	47	45	42	38	42	52	48	43	42
2. Count of LIC instruments or facilities in place 6/													
Currently PRGT-eligible	37	43	44	45	42	41	42	39	39	52	50	44	41
ECF 2/	34	41	42	42	40	36	37	32	26	30	31	31	28
o/w blends	1	1	-	-	-	-	-	-	1	-	2	2	2
SCF group 3/	-	-	-	-	-	-	-	-	3	7	8	3	3
o/w blends	-	-	-	-	-	-	-	-	-	1	2	2	2
o/w ESF-HAC	-	-	-	-	-	-	-	-	3	7	6	1	-
o/w precautionary	-	-	-	-	-	-	-	-	-	-	1	2	3
RCF group 4/	3	2	2	3	2	4	2	1	5	10	5	4	4
o/w ESF-RAC	-	-	-	-	-	-	-	-	1	9	5	4	4
o/w ENDA	-	-	1	2	1	2	-	-	2	-	-	1	-
o/w EPCA	3	2	1	1	1	2	2	1	3	2	-	-	-
PSI	-	-	-	-	-	1	3	6	5	5	6	6	6
o/w with financing	-	-	-	-	-	-	-	-	1	3	3	-	-
Memo items:													
Stand-alone SBA or EFF	4	2	1	1	1	1	1	-	2	3	2	1	1
SMP	-	1	3	3	3	8	10	5	4	2	2	1	-
Graduate LICs 5/	3	3	3	4	4	4	2	1	1	1	-	-	-
Total LIC facilities (all PRGT-eligible at the time)	40	46	47	49	46	44	44	40	40	53	50	44	41
3. Count of newly approved LIC facilities or instruments													
Currently PRGT-eligible	13	11	11	11	9	12	13	8	19	19	22	11	9
ECF 2/	10	11	9	9	7	8	9	4	9	6	12	5	6
o/w blends	-	-	-	-	-	-	-	-	1	-	2	-	-
SCF group 3/	-	-	-	-	-	-	-	-	3	4	2	1	1
o/w blends	-	-	-	-	-	-	-	-	-	1	1	-	1
o/w ESF-HAC	-	-	-	-	-	-	-	-	3	4	-	-	-
o/w precautionary	-	-	-	-	-	-	-	-	-	-	1	1	1
RCF group 4/	3	-	2	2	2	3	1	1	7	9	2	5	2
o/w blends	-	-	-	-	-	-	-	-	1	-	-	1	-
o/w RCF, ESF-RAC	-	-	-	-	-	-	-	-	1	8	2	4	2
o/w ENDA	-	-	1	1	1	1	-	-	2	-	-	1	-
o/w EPCA	3	-	1	1	1	2	1	1	4	1	-	-	-
PSI	-	-	-	-	-	1	3	3	-	-	6	-	-
o/w with financing	-	-	-	-	-	-	-	-	-	-	-	-	-
Memo items:													
Stand-alone SBA or EFF	2	-	1	1	-	-	-	-	2	2	-	-	-
SMP	-	1	3	3	2	7	6	4	4	2	-	1	-
Graduate LICs 5/	-	2	1	1	-	1	1	-	-	-	-	-	-
Total LIC facilities (all PRGT-eligible at the time)	13	13	12	12	9	13	14	8	19	19	22	11	9

1/ Shows one facility/instrument per country, based on the length of use in the year.
2/ Previously PRGF. Includes ECF-EFF blends.
3/ Includes ESF-HAC (ESF), ESF-SBA, and SCF-SBA blends.
4/ Includes RCF, ESF-RAC, EPCA, ENDA, and blends.
5/ In 2010 six countries graduated from the PRGT-eligible group: Albania, Angola, Azerbaijan, India, Pakistan, and Sri Lanka.
6/ Count of facilities under broader categories (same type within a year counts as one).

Table 3: Use of IMF Facilities and Instruments for PRGT-Eligible Countries, by Country Group

(As of end-June, 2012; Percentage of Years with Facility or Instrument in Place) 1/

	Use of LIC facilities, including blends										Stand-alone SBA or EFF	
	Total		**ECF** 3/		**SCF group** 4/		**RCF group** 5/		**PSI**			
Groups 2/	2000-08	2009-12	2000-08	2009-12	2000-08	2009-12	2000-08	2009-12	2000-08	2009-12	2000-08	2009-12
All LICs (72)	56	60	51	42	0	7	4	8	2	8	2	3
AFR (35)	74	78	67	58	1	6	5	6	5	16	1	-
APD (16)	22	16	20	2	-	9	1	5	-	-	1	5
MCD/EUR (12)	52	67	51	60	1	6	-	6	-	-	2	8
WHD (9)	51	64	44	31	-	8	7	25	-	-	10	3
Small Economy (17)	26	54	20	24	-	9	4	18	2	6	3	1
Not Small Economy (55)	65	62	60	48	1	7	4	5	2	9	2	3
Fragile (24)	39	57	33	52	-	4	7	6	-	-	0	3
Not Fragile (48)	64	62	60	38	1	9	2	9	3	12	3	3
Net Oil Exporter (10)	47	28	39	28	-	-	4	10	3	-	4	-
Net Oil Importer (62)	57	66	53	45	1	8	4	8	2	9	2	3
Exchange Rate Regime												
Float (26)	61	63	57	48	0	7	1	5	4	12	3	6
Fix (46)	53	59	47	39	0	8	5	10	1	6	2	1
Monetary Union (16)	72	80	63	58	1	3	9	20	1	6	2	-
Not Monetary Union (56)	51	55	48	38	0	8	2	4	3	8	2	4
IDA Cutoff												
Below IDA Cutoff (46)	66	70	61	54	1	8	4	7	2	10	-	-
Above IDA Cutoff (26)	38	43	32	22	-	7	3	11	3	4	6	8
Market Access (8)	47	56	43	13	1	19	1	19	3	13	1	19
HIPC status at end-2009												
Post-CP (26)	88	81	82	57	1	12	5	2	4	18	2	1
DP and pre-DP (13)	40	63	35	62	-	-	6	10	-	-	-	-
non-HIPC (33)	37	43	32	23	0	7	2	12	2	3	3	5
Memo item:												
PRGT-eligible Graduates 6/	44	4	44	4	-	-	2	-	-	-	6	8

1/ Sum of country years with facility in place as a share of total country years for each country group.

2/ Number of countries in the group in parentheses. Country group definitions use 2010 data unless otherwise indicated. AFR (African), APD (Asia and Pacific), EUR/MCD (European, Middle East and Central Asia), and WHD (Western Hemisphere) refer to Fund Area Departments. Small economy: below 1.5 million population in World Bank World Development Indicators; Fragile refers to World Bank definition of countries in fragile situations; Net oil exporter defined by IMF World Economic Outlook; Exchange rate regime defined by IMF de facto exchange rate regime classification; Monetary union defined as membership of WAEMU, CEMAC and ECCU; IDA cutoff refers to countries with per capita gross national income less than US$1,175; Market access is defined as countries with cumulative public external borrowing in 2005-2009 exceeding 50 percent of quota; status under the Highly Indebted Poor Countries Initiative (HIPC) at end-2009: post-CP means post completion point, DP and pre-DP means reached decision point or pre-decision point.

3/ Previously called PRGF. Includes ECF-EFF blends.

4/ Includes ESF-HAC (ESF), ESF-SBA, and SCF-SBA blends.

5/ Includes RCF, ESF-RAC, EPCA, ENDA, and blends.

6/ In 2010 six countries graduated from the PRGT-eligible group: Albania, Angola, Azerbaijan, India, Pakistan, and Sri Lanka.

Table 4: Access (New PRGT Commitments) by Country Group 1/

(As of end-June 2012; Period average)

Groups 2/	All PRGT Programs (in percent of quota)			
	Average annual commitments in percent of total country group quota 3/		Average annual access in percent of quota 4/	
	2000-08	2009-12	2000-08	2009-12
All LICs (72)	6.4	13.0	50.2	80.0
AFR (35)	6.5	13.2	47.2	90.0
APD (16)	6.2	10.6	59.1	80.0
MCD/EUR (12)	6.1	17.8	54.0	86.6
WHD (9)	7.2	5.4	56.2	45.0
Small Economy (17)	5.3	8.1	58.8	62.5
Not Small Economy (55)	6.5	13.1	48.9	86.2
Fragile (24)	8.6	17.6	56.8	83.4
Not Fragile (48)	5.6	11.0	47.1	78.3
Net Oil Exporter (10)	3.1	9.3	42.8	87.0
Net Oil Importer (62)	8.0	14.8	51.2	79.3
Exchange Rate Regime				
Float (26)	5.7	11.8	53.4	86.7
Fix (46)	7.5	14.6	48.4	76.3
Monetary Union (16)	9.2	24.6	41.2	71.1
Not Monetary Union (56)	6.0	11.3	54.5	84.6
IDA Cutoff				
Below IDA Cutoff (46)	8.5	16.7	49.0	85.1
Above IDA Cutoff (26)	2.9	6.4	53.9	68.2
Market Access (8)	8.0	11.6	53.2	64.8
HIPC status at end-2009				
Post-CP (26)	7.4	11.9	41.3	77.1
DP and pre-DP (13)	11.2	22.8	60.2	105.6
non-HIPC (33)	4.3	10.3	59.9	73.7
Memo item:				
PRGT-eligible Graduates (6)	2.8	-	52.5	-

1/ Originally approved amounts under the ECF (and previously PRGF), SCF, RCF, ESF-HAC, ESF-RAC, EPCA and ENDA.

2/ Country groups are defined in Table 3, Footnote 2.

3/ Period average of total annual PRGT commitments at the time of approval as a share of total group quota.

4/ Period average of access (in percent of quota) of new PRGT commitments within a year and country group.

Table 5: PRGT Credit Outstanding

Groups	Group Total Outstanding Credit as a Share of Total Group Quota			Group Average of Credit Outstanding in Percent of Quota		
	2000	2008	Jun-12	2000	2008	Jun-12
All LICs (72) 1/	57.4	30.3	51.8	75.0	47.1	76.4
AFR (35)	63.2	26.9	57.2	77.7	43.0	79.1
APD (16)	25.5	31.1	22.9	50.9	40.7	43.6
EUR (1) and MCD (11)	53.7	43.5	66.3	74.5	56.3	93.1
WHD (9)	83.3	32.7	35.3	82.7	57.9	75.3
Small Economy (17)	40.7	30.2	53.3	42.9	58.2	82.6
Not Small Economy (55)	57.8	30.3	51.7	77.7	45.5	74.9
Fragile (24)	53.2	46.7	53.4	57.5	52.1	63.6
Not Fragile (48)	58.9	23.3	51.1	84.1	44.5	82.8
Net Oil Exporter (10)	33.9	9.3	21.6	73.6	25.9	43.6
Net Oil Importer (62)	69.1	40.4	66.8	75.3	50.3	80.7
Exchange Rate Regime						
Float (26)	54.0	30.0	49.0	83.7	49.2	75.4
Fix (46)	61.9	30.8	55.6	69.3	45.7	77.0
Monetary Union (16)	101.2	27.1	94.8	96.5	40.5	90.1
Not Monetary Union (56)	50.8	30.8	45.6	68.8	49.5	71.4
IDA_Cutoff						
Below IDA Cutoff (46)	75.8	38.3	66.0	77.0	44.6	79.6
Above IDA Cutoff (26)	27.1	16.5	26.4	67.6	55.0	68.4
HIPC status as of end-2009 (39) 2/						
Post-CP (26)	104.6	26.5	71.0	89.9	37.8	76.4
DP and pre-DP (13) 2/	65.3	55.4	66.5	61.7	47.1	59.6
Non-HIPC (33)	24.8	24.5	34.9	60.0	59.7	85.2
Memo item:						
PRGT-eligible Graduates (6) 3/	11.1	14.5	3.0	60.3	51.1	15.7

1/ Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligibility list by an Executive Board decision in connection with its overdue obligations to the PRGT. It does not meet the graduation criteria for PRGT eligibility and, accordingly, would be expected to become PRGT-eligible if the remedial measure were lifted.

2/ Excludes Kyrgyz Republic, which became non HIPC-eligible in November 2011 based on end-2010 indebtedness criterion.

3/ Since 2010, six countries have graduated from the PRGT-eligible group: Albania, Angola, Azerbaijan, India, Pakistan, and Sri Lanka.

Appendix I. Summary of Facilities and Instruments for Low-Income Countries

Facility 1/	Duration of adjustment and BoP needs 2/	UCT conditionality standard 3/	Size and nature of balance of payments need 4/	Access	Other aspects
Extended Credit Facility (ECF)	Protracted BoP problem. Time needed to achieve stable and sustainable macro position ≧ 3 years (in any case > 2 years).	Required.	Present or prospective BoP needs exist (even if minimal) over course of 3-year arrangement, but a present need is not necessary for each disbursement.	Norm is 120% of quota (or 75% if outstanding PRGT credit > =100% of quota). Annual/cumulative limit: 100/300% of quota.	3-year duration, extendable to 5 years. PRS document required by 2nd review.
Standby Credit Facility (SCF)	Time needed to achieve stable and sustainable macro position ≦ 2 years (in any case< 3 years).	Required.	SCF can be approved based on present, prospective, or potential short-term BoP needs. Precautionary use possible. Disbursements require a present need.	Norm is 120% of quota (or 75% if outstanding PRGT credit > = 100% of quota) for 18-month arrangement. Annual/cumulative limit: 100/300% of quota.	1-2-year duration. Episodic use the norm; i.e., no more than 2.5 out of every 5 years.
Rapid Credit Facility (RCF)	Could be short term or protracted.	UCT conditionality not needed or not feasible. No ex-post conditionality or reviews. Can help build track record.	Urgent (present) BoP need must exist. Prospective or potential needs may also exist.	No norm. Annual/cumulative limit: 25/75% of quota, or 50/100% in case of sudden exogenous shocks. 5/	One-off disbursements. Repeated use possible based on sudden exogenous shocks or 6-monthly track records.
Policy Support Instrument (PSI)	Broadly stable and sustainable macroeconomic position.	Required.	At the time of approval, BoP needs may exist, but would be expected to be met through financing from non-Fund sources.	No access. On-track PSI facilitates rapid approval of SCF or RCF, without need to cancel PSI.	1-3 year duration, extendable to 4 years. PRS document required by 2nd review.
Staff-Monitored Program (SMP)	Could be short term or protracted.	Not required. SMP's purpose is to build a track record toward a UCT-quality program.	Any type or size of BoP need may exist.	No access.	Duration normally 6-18 months. No Board endorsement.

1/ For PRGT-eligible countries meeting the blending criteria, any concessional financial support should be blended with GRA financing, normally resulting in ECF-EFF, SCF-SBA, and RCF-RFI blends.

2/ Time needed to establish a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

3/ UCT conditionality standard implies that the authorities have the commitment and capacity to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund.

4/ Balance of payments (financing) needs can be present, prospective (i.e., a need that is expected/projected to arise in the future, including during the implementation of Fund program), or potential (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections).

5/ An exogenous shock is defined in the same manner as under the ESF: an event beyond the control of the authorities of the member, with a significant negative impact on the economy. In view of these considerations, qualifying exogenous events could include inter alia terms-of-trade shocks, natural disasters, shocks to demand for exports, or conflict or crisis in neighboring countries that has adverse balance of payments effects.

Appendix II. Blending of PRGT and GRA Resources[43]

The policies on the blending of PRGT and GRA resources were strengthened as part of the 2009 reform of LIC facilities. In the prior decade, only four countries had used blended finance, as many LICs meeting the presumption for blending favored GRA financing only or PRGT financing only. This was in part due to blending rules that implied very low levels of access under the concessional component of a blend. The objective of the 2009 reform was to promote a more consistent use of blending. Blending is currently subject to the following presumptions and limitations:

- Blending is *presumed* for PRGT-eligible countries with either (i) per capita income above the prevailing operational cutoff used by IDA[44] or (ii) sustained past and prospective market access and a per capita income that exceeds 80 percent of the IDA operational cutoff.[45] Other PRGT-eligible countries are expected to use concessional financing only.

- 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), even if per capita income or market access creates a presumption for blending.

- In *exceptional circumstances*, when financing needs exceed the applicable access limits, blending can be used irrespective of the per capita income, market access, and debt sustainability criteria.

- When providing financial assistance with blended resources, ECF, SCF, and RCF resources will normally be provided together with GRA resources under the EFF, SBA, and RFI, respectively.

Access to the concessional component of blended financial assistance is normally half of total access, subject to a floor on annual average concessional access of 25 percent of quota and a ceiling of 50 percent of quota, whereas the remainder of the total access would be met by GRA financing. In exceptional circumstances when the balance of payments needs are very large (for instance in case of very large shocks, large needs related to arrangements immediately following arrears clearance, repurchases of GRA emergency assistance), access to the concessional resources under blended financial assistance could exceed the normal ceiling of 50 percent of quota, and reach the annual access limit of 100 percent of quota or possibly the exceptional annual access limit of 150 percent of quota if the criteria for exceptional concessional access are met (including that the country does not meet the income or market access criteria for blending, see above).

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[43] See IMF (2012c).

[44] As of July 2011, this cut-off was US$1,175. It is revised each year, typically in July.

[45] This criterion would be met if the market access criterion for graduation from the PRGT eligibility is met, see IMF (2009i) and IMF (2010a).

Appendix III. The PRGT Interest Rate Mechanism[46]

The new PRGT interest rate mechanism was designed in 2009 to balance several competing objectives, including: (i) making the financing term structure more concessional, especially in the near-term context of low global interest rates; (ii) preserving the Fund's scarce concessional resources; (iii) tailoring financing terms to the needs and capacity of LICs; and (iv) limiting fluctuations in concessionality and subsidy costs. A review-based mechanism where the interest rates would normally be adjusted every two years in light of changes in global interest rates was considered to balance these objectives well. Under the framework, the applicable interest rates on outstanding loan balances under the ECF, RCF, and SCF would depend on the prevailing SDR interest rates, with a modest differentiation in the interest rate between facilities to account for the expectation that SCF users will on average have somewhat higher capacity to service debt than ECF and RCF users.

In recognition of the difficult global economic circumstances prevailing at the time the new PRGT interest rate mechanism was adopted, the Board concurrently approved exceptional interest relief for all LICs—zero percent interest on all concessional loans through end-December 2011 and subsidization of the rate of charge to zero percent for subsidized EPCA/ENDA through end-January 2012. In December 2011, the exceptional interest relief was extended by one more year.

Interest Rate Mechanism for the Fund's Concessional Facilities 1/

	Interest rate for concessional facility (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

1/ The average SDR rate is based on the most recently observed 12-month period.

[46] See IMF (2009h and 2011g).

Appendix IV. The 2009 Financing Package

In support of the 2009 LIC facilities reforms, a financing package of loan and subsidy resources was approved to boost the Fund's concessional lending capacity to SDR 11.3 billion for 2009–14. Taking into account the available loan resources and following the Board's endorsement of a voluntary encashment regime, the target for the mobilization of new loan resources was set at SDR 10.8 billion. Resources needed to fully subsidize the projected lending, including during the period of temporary interest relief, were estimated at SDR 2.5 billion (end-2008 NPV terms). Taking into account the subsidy resources available at the time, additional subsidy resources of about SDR 1.5 billion (end-2008 NPV terms) would need to be mobilized. The approved financing package envisaged the following sources:

a. ***New Bilateral Contributions.*** The Board agreed to target additional bilateral subsidy contributions of SDR 0.2–0.4 billion (end-2008 NPV terms). As of end-June 2012, 26 members have pledged a total of SDR 214 million in bilateral subsidy contributions.

b. ***Delaying PRGT Reimbursement to the GRA.*** As part of the Fund's new income model, the Board had decided to resume reimbursement of the GRA for the cost of administering the PRGT. It was decided that for a period of three years starting in FY 2010, an amount equivalent to the estimated expenses of operating the PRGT would be transferred from the PRGT Reserve Account to the new General Subsidy Account instead of the GRA, generating estimated subsidy resources of SDR 0.15–0.2 billion.

c. ***Use of PRGT Reserve Account Resources.*** SDR 0.62 billion (end-2008 NPV terms) may be transferred from the PRGT Reserve Account to the PRGT's General Subsidy Account. Staff estimated that the resources remaining in the Reserve Account would provide for an annual self-sustaining concessional lending capacity of about SDR 0.7 billion after 2014–15.

d. ***Use of Resources Linked to Gold Sales.*** In February 2012, the Board approved the partial distribution of general reserves equivalent to SDR 700 million attributed to part of the windfall profits from the recent gold sales, subject to satisfactory assurances that members will provide new PRGT subsidy contributions of at least SDR 630 million.

Subsidy Needs and Sources of Financing

	Billions of SDRs (end-2008 NPV terms)	Billions of US$ (cash terms) 1/
Estimated subsidy needs	**2.5**	**4.7**
Minus: available resources	1.0	1.9
Remaining Needs	**1.5**	**2.8**
Sources		
Transfer from PRGT Reserve Account	0.6	
New bilateral contributions	0.2-0.4	
Delaying PRGT reimbursement (for 3 years)	0.15-0.2	
Gold sales resources	0.5-0.6	

1/ Assuming exchange rate of US$ 1.5 per SDR.

Appendix V. Consultative Process

The Review of LIC Facilities has benefitted from consultations with senior country officials, civil society organizations (CSOs) in developed and low-income countries, representatives of selected development partners, and Fund mission chiefs. A brief summary of the consultations and some key findings are detailed below.

Consultations with Senior Country Officials

Staff conducted structured interviews with key counterparts in ministries of finance and central banks. There was general support for the reforms of the LIC toolkit undertaken in 2009 and a broad assessment that the experience so far has been positive. Authorities from 28 PRGT-eligible countries undertook an interview with Fund staff. More than 50 percent of responses were from AFR (16), with a further seven responses from MCD and the remainder from APD and WHD. The large majority of authorities were those with recent experience of the ECF (20). Countries with experience of the PSI (3), RCF (2), SCF (1), SMP (1), and surveillance (1) also participated in interviews. Six of seventeen small states sent responses.

Many respondents welcomed the increase in ***access levels*** for LIC facilities during crisis periods. Some suggested more extensive use of frontloaded disbursements, particularly in cases of substantial adjustment at the initial program stage. In this context, more flexibility for the disbursement profile was seen as helpful.

Country authorities' views on ***PRS requirements*** were mixed. On the one hand, a number stressed that the PRS helped to sharpen their ECF-supported programs and created incentives to accelerate pro-poor policy implementation. On the other hand, a few countries stressed the lack of substantive linkages between the PRS and Fund-supported program, and noted that fiscal and monetary objectives might constrain the implementation of PRS development agenda. A few added that the Fund-supported programs were also based on the country's medium-term economic program, budget bills and monetary authority's statements. Some authorities raised concerns about procedural issues related to the need to regularly update PRS documents and monitor social and priority spending.

Most respondents did not see significant ***gaps in the LIC facilities toolkit***, but some raised the need for an precautionary-type instrument for good performers with less intrusive conditionality requirements than the PSI. Others thought more clarity and flexibility in assessing qualification criteria might increase demand for the PSI.

A large majority of respondent considered the current ***PRGT financing terms*** broadly appropriate. The zero-interest policy was very much welcomed and many saw merit in making it permanent. A few went beyond that by asking for a possible expansion of the grace period to increase the grant element to 35 percent for Fund financing in line with the minimum requirement for external borrowing for many LICs.

Consultations with Civil Society Organizations

As part of external consultation, an online consultation was launched on April 17, 2012 and closed on May 22, 2012 and a teleconference was held on June 27 with the CSOs that participated in the online consultation.[47] These representatives included CSOs from developed and low-income countries.

CSOs welcomed the increased flexibility of the LIC toolkit adopted in 2009, zero interest charges, and the related 2009 financing package. However, some concerns were raised regarding the financing constraints of Fund-supported program after the peak of the 2008–09 crisis. In particular, a study commissioned by Norwegian CSOs claimed that these constraints might have led to reductions in social programs in some countries with IMF-supported programs.

There was a general call for a systematic annual assessment of the poverty and social impact of IMF-supported programs. Some suggested the need for a more uniform definition and report on annual social spending targets in order to facilitate the comparison across countries and regions. Other issues that emerged during the consultation were: Fund-supported programs should have a strong emphasis on domestic revenue mobilization, in particular from natural resource sectors; program design should benefit from a broader dialogue on various policy alternatives (e.g., Millennium Development Goal scenarios); programs should place greater emphasis on agriculture as a key component of poverty reduction strategies; the zero-interest policy should be made permanent; repayments of Fund financing could be linked to economic performance such as GDP or exports. Finally, there was support for the use of IMF gold sales windfall profits to finance the PRGT going forward.

Consultations with IMF Mission Chiefs

During March 2012, current and previous mission chiefs of PRGT-eligible countries provided their feedback on their experience with LIC facilities through a survey. The overall participation rate was very good, with 60 mission chiefs responding. The survey was followed by three focus group meetings with mission chiefs on: PRS requirements, PSI issues, and precautionary-type instrument. This allowed for more in-depth discussion on some proposals that emerged in the survey.

The vast majority of mission chiefs thought that the LIC facilities have overall worked well and provided effective assistance to mitigate the impact of the global crisis. Many mission chiefs highlighted a number of positive changes from the 2009 reforms, including the newly created facilities (the RCF and SCF), higher access, better financing terms (temporary interest waiver), and increased flexibility on some operational modalities. However, a few mission chiefs noted that the 2009 reform brought only minor changes in some areas, in particular for the ECF relative to the PRGF. A couple of mission chiefs had difficulties finding an appropriate instrument for their countries' needs, due to perceived gaps or qualification criteria. The usefulness of a precautionary financing facility was also flagged.

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[47] The summary of the teleconference and the comments received by CSOs are posted at: http://www.imf.org/external/np/spr/2012/comm/pdf/liccomments.pdf.

Some survey responses noted that country authorities perceived access levels as being too low. A large majority of mission chiefs felt that program modalities are mostly appropriate, but some raised concerns about the procedural rigidities of the PRS documentation requirements, which have in some cases delayed reviews and do not adequately focus on the substantive linkages between IMF-supported programs and poverty reduction strategies. Several respondents also noted that the revised debt limits policy remains rather rigid. A few mission chiefs raised concerns about onerous Board documentation requirements, while seeing merit in further streamlining conditionality.

Appendix VI. Longer-Term Demand for PRGT Resources

As during the previous exercise (IMF, 2011a), the impact of graduation and blended financing is modeled by projecting GDP and per capita income growth on a country-by-country basis. Given the cyclicality and lumpiness of demand, the analysis focuses on average demand over two decades, the period 2015–34, during which many countries are still expected to be PRGT-eligible. This approach helps estimate total demand taking into account the degree of overall volatility but without the need to project the timing of individual shocks. Average access per country is modeled based on existing access policies. From 2015 onward access is assumed to grow in line with average GDP growth.

Given the high degree of uncertainty inherent in longer-term projections, staff again modeled two scenarios that provide reasonable upper and lower bounds of potential demand in a post-debt relief world:

- **A high case** that assumes only limited further progress on LICs' macroeconomic performance and a relatively high incidence of global volatility and crises. The high-case scenario assumes that an average of 50 percent of LICs have some form of Fund financial support in place in any given year over the projection horizon. This would be in line with the historical average over the last decade, and thus reflects a more pessimistic view of global economic conditions and LICs' exposure to future volatility.

- **A low case** that assumes that a lower share of PRGT-eligible countries would resort to Fund financing, predicated on more optimistic assumptions regarding the global economic environment and LICs' ability to manage periods of economic stress. Specifically, it is assumed that, on average over the two decade projection horizon, just under a third of LICs (measured as a share of total quota) have some form of Fund financial support in place. This is lower than in the most benign period of the past decade, and thus reflects an optimistic outlook for global economic conditions and LICs' ability to address future volatility.

Testing the results against historical demand of eligible countries as a share of GDP suggests that, including the GRA resources provided to blends, the low case is comparable to the lowest-ever demand period of 2003–08, and the high case is comparable to 2001–10 (Table below).

Potential Demand for PRGT Resources

	Average number of PRGT eligible countries	Nominal SDR, millions	Real (2012) SDR, millions	In percent of GDP of PRGT-eligible countries
Average commitments 2001–10 1/	78.0	873	980	0.16
Average commitments 2003–08	78.3	565	662	0.11
Average commitments 2009–14	69.2	1890	1888	0.21
Current self-sustained capacity				
Average commitments 2015–24	54.9	700	604	0.05
Average commitments 2025–34	40.4	700	496	0.03
Low-case lending scenario				
PRGT Financing				
Average commitments 2015–24	54.9	1037	872	0.07
Average commitments 2025–34	40.4	1265	879	0.06
Average commitments 2015–34	47.65	1151	876	0.07
PRGT + GRA Blend Financing				
Average commitments 2015–24	54.9	1538	1291	0.10
Average commitments 2025–34	40.4	1992	1385	0.10
Average commitments 2015–34	47.65	1765	1338	0.10
High-case lending scenario				
PRGT Financing				
Average commitments 2015–24	54.9	1694	1426	0.12
Average commitments 2025–34	40.4	2059	1432	0.10
Average commitments 2015–34	47.65	1877	1429	0.11
PRGT + GRA Blend Financing				
Average commitments 2015–24	54.9	2497	2096	0.17
Average commitments 2025–34	40.4	3223	2241	0.15
Average commitments 2015–34	47.65	2860	2169	0.16

Sources: WEO, and Fund staff estimates.

1/ Excluding arrears clearance for DRC (2002), Liberia (2008), and very large assistance provided to Pakistan in the aftermath of 9/11.

Assumptions:

1. Assumes proposals for 14th review become effective by 2014 and access under facilities is halved. Thereafter annual access increases by 7.5 percent in line with GDP growth.
2. Assumes LICs' per capita income grows in line with their WEO growth projections up to 2015. From 2015 onwards, assumes growth at average of their WEO per capita growth rate 2006-15 and the median per capita growth rate for all LICs (7.5 percent). Population growth is assumed at 2.0 percent.
3. Inflation rate of 2 percent.
4. In order to simulate graduation, countries that are above the PRGT thresholds (twice the IDA operational cut-off for large countries, three times the cut-off for small countries) for two years are assumed to be removed from the PRGT-eligibility list.
5. SDR/US$ exchange rate of 1.56

Appendix VII. PRGT Reserve Account and Long-Term Lending Capacity

The PRGT Reserve Account (RA) provides security to PRGT lenders and note purchasers. The RA has been financed by reflows of Trust Fund and Structural Adjustment Facility repayments, as well as investment returns on balances held in the RA. The PRGT can tap these resources temporarily to meet its obligations in the event of a delayed payment by a borrower to any loan account of the Trust. The balance in the RA amounted to SDR 4.0 billion at end-2011, representing a substantial multiple of the projected PRGT repayments falling due over the next twelve months and about 78 percent of total PRGT obligations. It is expected that the RA will continue to provide a loan coverage ratio of about 40 percent in the medium term, in line with the historical average.

It is envisaged that the resources and investment returns in the RA could support subsidization of PRGT lending beyond 2014–15 on a “self-sustaining” basis. With available subsidy resources under the 2009 financing package expected to be sufficient through 2014, and in the absence of additional funding, staff projects that the RA could subsidize about SDR 0.7 billion in annual PRGT loan commitments in nominal terms, starting from 2015 onward. Two caveats are important to note:

- The projections are subject to significant uncertainties, including: medium-term demand; the rate of return on investment of the RA balance; the interest rate paid to lenders to the Trust; and the timing of repayment of overdue Trust Fund, SAF, and PRGT obligations by the protracted arrears cases. Assuming outflows from the RA to reimburse the GRA for PRGT expenses increase annually by the rate of the projected inflation, for instance, would reduced the self-sustaining capacity from SDR 0.7 billion to SDR 0.6 billion.

- The self-sustaining capacity remaining constant in nominal terms represents gradual erosion of the value of the assistance LIC members receive in real terms. If no additional resources are available, to ensure that the self-sustaining capacity of the PRGT remains constant in real terms, the RA would have a capacity to commit only SDR 0.2 billion annually when the self-sustaining operation commences in 2015, and grow along with inflation thereafter.

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