

INTERNATIONAL MONETARY FUND

A New Architecture of Facilities for Low-Income Countries

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Legal Department
(in consultation with other departments)

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EXECUTIVE SUMMARY

The global economic crisis has highlighted the urgency of making the Fund’s financial support to low-income countries (LICs) more flexible. Adding to the pressures from the 2008 food and fuel prices shocks, the global crisis has caused an unprecedented surge in LIC demand for Fund financing. In response, the Fund has doubled access limits on its concessional lending, and is now redesigning its concessional facilities.

This paper proposes a new facilities architecture for LICs. It is based on “Option 2” set out in the framework paper discussed by the Executive Board on March 20, 2009.* The new architecture provides a unified facilities framework for LICs under a new Poverty Reduction and Growth Trust (PRGT). The facilities are distinguished primarily by the duration of the financing and adjustment needs and the conditionality standard. The proposed architecture comprises three new concessional lending facilities and one non-financial instrument:

- The ***Extended Credit Facility (ECF)*** succeeds the Poverty Reduction and Growth Facility (PRGF) as the Fund’s main tool for providing medium-term support to LICs with protracted balance of payments problems.
- The ***Standby Credit Facility (SCF)*** provides financing to LICs with short-term balance of payments needs, similar to the Stand-By Arrangement (SBA).
- The ***Rapid Credit Facility (RCF)*** provides rapid low-access financing with limited conditionality to meet urgent balance of payment needs.
- The ***Policy Support Instrument (PSI)*** remains the Fund’s non-financial policy support tool, and can facilitate access to the SCF and RCF, if needed.

The objective of the reform is to make the facilities more flexible and tailored to the diverse needs of LICs in light of their heightened exposure to global volatility. The new architecture closes gaps and streamlines existing facilities to provide more effective support to LICs, especially for short-term, precautionary, and emergency needs. New access limits preserve the recent doubling and apply across the facilities in a unified manner. Financing terms are made more concessional for protracted or emergency needs. The instruments are more closely aligned to those available in the General Resources Account (GRA).

All instruments aim to assist LICs in achieving a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. They are designed to support policies rooted in country-owned Poverty Reduction Strategy (PRS) strategies, while allowing for more flexibility in documentation requirements. In addition, all facilities should support policies that safeguard social and other priority spending.

The proposed ECF provides medium-term concessional financing to LICs with protracted balance of payments problems. Like its predecessor, it supports upper-credit

* *The Fund’s Facilities and Financing Framework for Low-Income Countries.*

tranche (UCT) quality economic programs aimed at moving toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. The three-year ECF is intended for cases where the resolution of macroeconomic imbalances is expected to extend over the medium- to longer term. An ECF arrangement can be both extended and used repeatedly.

The proposed SCF provides concessional financing to LICs with short-term balance of payments needs. It supports UCT quality economic programs aimed at restoring a stable and sustainable macroeconomic position consistent with strong and durable growth and poverty reduction. The SCF is targeted at LICs that do not face protracted balance of payments problems, but may experience episodic, short-term financing and adjustment needs, including those caused by exogenous shocks (superseding the High Access Component (HAC) of the Exogenous Shocks Facility (ESF)). The duration of an SCF arrangement would normally be 12-18 months, and its use would be limited to two and a half out of any five years. The SCF can be used flexibly in conjunction with a PSI. Similar to the SBA, an SCF can be approved on a precautionary basis in case of a potential, but not immediate, balance of payments need.*

The proposed RCF provides low-access concessional financing with limited conditionality to address a variety of urgent balance of payments needs. Resources are provided as outright disbursements, based on ex-ante policy undertakings, without a review-based program or ex-post conditionality. The RCF provides rapid assistance in cases where a UCT quality economic program is either not necessary, for instance due to the transitory and limited nature of the need, or not feasible, for instance if policy capacity is constrained. A “shocks window” offers help in case of natural disasters or other exogenous shocks (superseding the subsidized Emergency Natural Disaster Assistance (ENDA) and Rapid Access Component (RAC) of the ESF). The RCF can also be used repeatedly based on a performance track record, for instance to facilitate transition to a UCT quality program (superseding the subsidized Emergency Post Conflict Assistance (EPCA)).

New access policies preserve the recent doubling of access limits while ensuring flexibility and uniformity of access under the three facilities. Total access under all concessional facilities is available up to: (i) 100 percent of quota per year and (ii) 300 percent of quota cumulatively. Access can be higher in case of exceptionally large needs and strong policies. Sub-limits apply to RCF access, given the absence of UCT conditionality. Access under the ECF and SCF is also guided by access norms that decline with total outstanding credit. High-access financing requests are subject to uniform procedural safeguards.

The interest rate on all concessional facilities is reduced to ¼ percent, and blending rules are strengthened.** The ECF and RCF would have the current PRGF-ESF repayment schedule, whereas the maturity and grace period for the SCF are shorter to reflect the short-term nature of the need. New blending rules—based on per capita income, market access, and debt vulnerabilities—help preserve concessional resources while allowing higher access when needed.

* A revised staff proposal was approved by the Executive Board: the precautionary option under the SCF will be activated at the beginning of 2010. This proposal is set out in *A New Architecture of Facilities for Low-Income Countries and Reform of the Fund’s Concessional Financing Framework—Supplementary Information* (henceforth Supplement 1).

** A revised staff proposal with the following initial interest rate structure was approved by the Executive Board: 0.0/0.0/0.25 percent for the ECF, RCF, and SCF, respectively (see Supplement 1).

I. PROPOSED REFORM OF FACILITIES FOR LOW-INCOME COUNTRIES¹

A. Introduction

1. **The global financial crisis has added further impetus to the Fund’s efforts to modernize its array of facilities, including for low-income countries (LICs).** The global crisis, adding to the pressures caused by the 2008 food and fuel prices shocks, has caused deep macroeconomic distress for many LICs through sharply falling exports, shrinking foreign direct investment, and declining remittances. The result has been an unprecedented increase in demand for financial assistance. Responding to these needs, and in line with the request of the G-20 Heads of State at the London Summit on April 2, 2009, the Fund has stepped up its financial assistance to LICs, doubled access limits on concessional lending, and is now considering a comprehensive overhaul of its lending facilities and financing framework to provide additional concessional and flexible financing to the poorest countries.

2. **This paper proposes a new architecture of the Fund’s lending facilities for low-income countries (LICs), based on the recent review of LIC facilities.**² In their discussion on March 20, 2009, Executive Directors considered that the Fund’s instruments for LICs—with the Poverty Reduction and Growth Facility (PRGF) at the center—have served its low-income members well. They welcomed the marked improvements in economic performance by LICs over the past decade, particularly those with PRGF-supported programs, but noted that the global economic crisis is jeopardizing their hard-won gains. Moreover, their economies have also become increasingly diverse in recent years. Directors therefore called on staff to prepare a reformed architecture of LIC facilities, which would complete the broader modernization of the Fund’s facilities. The architecture proposed below and in the related Decisions reflects Executive Directors’ guidance and additional consultations with country authorities and other stakeholders (Appendix I).

3. **The paper is organized as follows:** The remainder of this section discusses the objectives and main elements of the reform, and summarizes key considerations and the relationship between different facilities. Sections II to IV describe the three lending facilities under the new architecture. Section V sets out access and blending policies, as well as financing terms for the three facilities.

¹ The paper was prepared by a staff team led by C. Mumssen, J.K. Martijn, and S. Fabrizio, and comprising P. Dudine, E. Gemayel, P. Jenkins, L. Kaltani, A. Martin, S. Maziad, P. Mitra, M. Sáenz, H. Weisfeld, B. Dabrowska (all SPR), P. Njoroge (FIN), I. Mouysset (LEG), and C. Lane (AFR). The work was guided by H. Bredenkamp (SPR), J. Lin (FIN), and R. Weeks-Brown (LEG).

² See *The Fund’s Facilities and Financing Framework for Low-Income Countries* (henceforth “the framework paper”) and *The Fund’s Facilities and Financing Framework for Low-Income Countries -- Supplementary Information*.

B. Objectives of the Reform

4. **The objective of the reform is to make the facilities more flexible and tailored to the diverse needs of LICs in light of their heightened exposure to global volatility.** As analyzed in the framework paper, three broad types of country situations can be usefully distinguished: First, many LICs are undergoing longer-term adjustment efforts to address entrenched macroeconomic and structural imbalances, and can benefit from PRGF-type financing. Second, some members are facing severe capacity constraints and fragilities, and may also experience urgent financing needs. Third, an increasing number of LICs have achieved broadly stable and sustainable macroeconomic positions, and some have moved to low-access or non-financial Fund-supported programs. However, as the food and fuel price shocks as well as the global crisis have illustrated, many LICs have also become more exposed to global volatility, including due to higher private capital inflows and trade volumes, suggesting a relative shift in demand toward more episodic, short-term Fund financing and precautionary arrangements.

5. **The proposed architecture closes gaps and streamlines existing facilities to provide more effective support to LICs, especially with respect to their short-term, precautionary, and emergency needs (see Figure 4 in Appendix II).** Based on “Option 2” discussed in the framework paper and taking into account Executive Directors’ suggestions for further refinements as well as feedback from country authorities, the proposed architecture preserves the central role of a PRGF-type facility to address protracted balance of payments problems, introduces a concessional Stand-By Arrangement (SBA)-like instrument, and unifies concessional instruments for emergency assistance. It also reforms access policies and other facility design features to make them more consistent across facilities and tailored to country needs.

C. The Proposed Architecture

6. **The new architecture consists of three concessional facilities under a new Poverty Reduction and Growth Trust (PRGT),³ and one non-financial instrument.⁴** All facilities share the same poverty reduction and growth objectives and are distinguished primarily by (i) the duration of the financing and adjustment needs and (ii) the nature of the economic program and related conditionality standard (Figure 1):⁵

³ The current PRGF-ESF Trust would be amended and expanded to become the PRGT. LICs that are currently PRGF eligible would become PRGT eligible. A separate paper reviewing eligibility is forthcoming.

⁴ In addition, low-income members have access to GRA financing. The Staff-Monitored Program (SMP) remains a useful tool for helping members establish a track record toward any of these facilities.

⁵ The proposed names of the new lending facilities are based on these functionalities, similar to GRA facility names. This contrasts with the current labeling of LIC facilities, based on the type of country, program objectives, or cause of the financing need, which has raised concerns about possible stigma.

- **The Extended Credit Facility (ECF)** is the successor to the PRGF and provides medium- to longer-term financial assistance to LICs with protracted balance of payments problems, with enhanced concessionality and flexibility. It supports upper-credit tranche (UCT) quality economic programs aimed at moving toward a sustainable macroeconomic position.
- **The Standby Credit Facility (SCF)** provides UCT concessional financing to LICs with short-term balance of payments needs, including those caused by exogenous shocks (superseding the Exogenous Shocks Facility-High Access Component (ESF-HAC)). The facility is targeted at countries that no longer face protracted balance of payments problems and, like the SBA, can be used on a precautionary basis.*
- **The Rapid Credit Facility (RCF)** provides rapid low-access financing with limited conditionality, including to countries hit by natural disasters and other shocks (superseding the subsidized Emergency Natural Disaster Assistance (ENDAs) and ESF-Rapid Access Component (RAC)) and to countries in post-conflict and other situations with limited capacity (superseding the subsidized Emergency Post Conflict Assistance (EPCA)). It provides assistance in cases where there is an urgent balance of payments need and a UCT-quality program is not feasible or not necessary.
- **The Policy Support Instrument (PSI)** remains a non-financial policy support tool for countries with broadly sustainable macroeconomic positions.⁶ In the event of short-term financing and adjustment needs, PSI users would have quick access to the SCF or RCF, without a need to cancel the PSI.

Figure 1: Proposed Architecture of Lending Facilities for LICs

Standby Credit Facility (SCF)	Extended Credit Facility (ECF)	Upper Credit Tranche (UCT) Review-Based Program
Rapid Credit Facility (RCF)		
(Shocks window)	(Transition to ECF)	No UCT Program, Outright Disbursements
Short-term financing needs	Medium-/longer-term financing needs	

* A revised staff proposal was approved by the Executive Board: the precautionary option under the SCF will be activated at the beginning of 2010. This proposal is set out in *Supplement 1*.

⁶ Initial experience with the PSI has generally been positive, and no major changes are proposed at this time. The PSI has provided policy support to countries that have achieved sustainable macroeconomic positions and did not require Fund financing.

Economic Objectives

7. **All instruments under the proposed architecture are designed to assist LICs in achieving and maintaining a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.** Such a position would be characterized by the absence of a balance of payments need and the domestic and external stability that is necessary to support strong and durable poverty reduction and growth, and would typically be associated with sustainable fiscal and current account balances, limited debt vulnerabilities, adequate international reserves, and sufficient policy and institutional capacity to implement appropriate macroeconomic policies. This position might still involve significant levels of donor assistance, though aid dependence would be expected to decline over time.

8. **The new architecture distinguishes the facilities according to the duration of the financing and adjustment needs (Figure 1 and Table 1).** The ECF is intended to assist countries with protracted balance of payments problems in making progress toward a sustainable macroeconomic position. A protracted balance of payments problem is defined in this context as an actual or potential balance of payments need associated with entrenched macroeconomic imbalances, resolution of which is expected to extend over the medium- or longer term.⁷ By contrast, the SCF is designed to address short-term balance of payments needs,⁸ both immediate and potential, of members no longer facing protracted balance of payments problems and to restore a sustainable macroeconomic position in the short term.⁹ Hence, while some members may require successive ECF arrangements, use of the SCF should be episodic. The RCF can assist members with an urgent balance of payments need that may be short term or, in some cases, could occur in the context of a protracted problem (in which case the RCF could facilitate a transition to an ECF arrangement).

9. **The proposed architecture recognizes that not all PRGT-eligible members necessarily face a protracted balance of payments problem.** Specifically, the SCF is aimed at restoring macroeconomic sustainability in countries that no longer face such

⁷ A protracted balance of payments problem would exist when the resolution of the underlying macroeconomic imbalances would normally be expected to last three years or more, and in any case more than two years. As is the case under the PRGF, a protracted balance of payments problem implies a financing need over the course of the arrangement, though not necessarily at the time of approval or individual disbursements.

⁸ A short-term balance of payments need is defined as an actual or potential balance of payments need associated with macroeconomic imbalances that are normally expected to be resolved within two years, and in any case in less than three years.

⁹ The delineation of the ECF and SCF on the basis of the duration of the financing and adjustment need implies that other factors typically associated with protracted or short-term needs are not used as defining criteria. For instance, while structural maladjustments would almost always be expected to underlie a protracted need, they do not *per se* define the protracted balance of payments problem standard, which helps avoid gaps in the new architecture.

problems. This represents a change in the Fund's LIC policies, as low-income members have so far been assumed *a priori* to have a protracted balance of payments problem. The elimination of this presumption is consistent with the increasing diversity of LICs analyzed in the framework paper, including the finding that a growing number of them have achieved broadly stable and sustainable macroeconomic positions.

10. **The facilities are also distinguished by the nature of the economic program and related conditionality standard.** The ECF and SCF are designed to support UCT quality economic programs, whereas the RCF is intended to meet urgent balance of payments needs quickly through stand-alone disbursements when UCT conditionality is either not necessary, for instance in case of temporary shocks that create only limited financing and adjustment needs, or not feasible, for instance in case of more protracted financing and adjustment needs (requiring repeated disbursements) when time is needed to move to an ECF arrangement owing to limited policy capacity.

Focus on Poverty Reduction and Growth

11. **All LIC instruments are designed to support economic policies rooted in country-owned strategies that aim to support poverty reduction and economic growth.** Program design should be aligned with the country's medium-term poverty reduction and growth objectives, and should aim to support policies that safeguard social and other priority spending.

12. **While Poverty Reduction Strategy (PRS) documents are generally expected to underpin policies in all countries seeking concessional Fund support, formal documentation requirements are made more flexible and tailored to the type of program.** Specifically, while submission of a PRS document to the Executive Board would remain a requirement for the ECF and PSI, consistent with their medium-term timeframe, there would be greater flexibility on timing than is currently the case.¹⁰ In the case of the SCF, if financing and adjustment needs persist beyond the short term, SCF users would typically move to an ECF arrangement,¹¹ which would then be underpinned by a PRS document. Finally, while RCF financing would not require a PRS document, if it is used repeatedly to move toward an ECF, efforts to prepare such a strategy would be expected. Under any of the facilities, the Letter of Intent for a new financing request should indicate how the program advances the country's poverty reduction and growth objectives.

¹⁰ Specifically, the PRS document would normally need to be submitted by the time of the second ECF or PSI program review. See Section II.

¹¹ Use of the SCF is limited to 2½ out of any 5 years to avoid overlap with the ECF and ensure it is not used for addressing protracted balance of payments problems (see Section III).

Table 1. The New Facilities Architecture for Low-Income Countries

	Extended Credit Facility	Stand-by Credit Facility	Rapid Credit Facility
Supersedes	PRGF	ESF-HAC	ESF-RAC, subsidized EPCA and ENDA
Objective	Assist LICs in achieving and maintaining a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth		
Purpose	Address protracted balance of payments problems.	Resolve short-term balance of payments needs.	Low-access financing to meet urgent balance of payments needs.
Eligibility	Countries eligible under the new Poverty Reduction and Growth Trust (PRGT), which replaces the PRGF-ESF Trust		
Qualification	Protracted balance of payments problem; actual financing need over the course of the arrangement, though not necessarily at approval or individual disbursements.	Potential (precautionary use) or actual short-term balance of payments need at approval; actual need required for each disbursement.	Urgent balance of payments need when UCT program not feasible or not needed.
Poverty Reduction and Growth Strategy	Fund-supported program should be aligned with country-owned poverty reduction and growth objectives, and aim to support policies that safeguard social and other priority spending		
	Submission of PRS document by second review.	Submission of PRS document not required; if financing need persists, SCF user would move to an ECF with associated PRSP requirements.	Submission of PRS document not required. In case of repeated use to facilitate move to ECF, efforts expected to prepare a PRSP.
Conditionality	UCT. Flexibility on adjustment path and timing.	UCT. Aim to resolve balance of payments need in the short term.	No UCT and no ex-post review-based conditionality; track record for repeat use (except under shock window).
Access policies	Global annual limit of 100% of quota; limit of 300% of quota on a cumulative basis across facilities (Exceptional access : annual limit of 150% of quota; cumulative of 450% of quota)		
	Norms: access decline with total outstanding credit; 120% of quota if outstanding credit < 100% of quota; 75% of quota if outstanding credit >= 100% of quota.		Sub-limits (given lack of UCT-conditionality): annual 25% of quota (shocks window 50%); cumulative 75% of quota (shocks window 100%).
Financing Terms*	Interest rate: ¼ percent; Repayment terms: 5 ½ -10 years.	Interest rate: ¼ percent; Repayment terms: 4 - 8 years.	Interest rate: ¼ percent; Repayment terms: 5 ½ -10 years.
Blending	Based on per capita income and market access; link to debt vulnerability		
Precautionary use*	No.	Yes, with annualized access limited to 50 % of quota.*	No.
Length and repeated use	3 years (extendable up to 5); Can be used repeatedly.	12-24 months; use limited to 2 ½ in any 5 years.	Outright disbursements; Repeated use possible subject to access limits.
Concurrent use	GRA (EFF/SBA)	GRA (SBA/EFF) and PSI	GRA (ENDA/EPCA) and PSI

* A revised staff proposal was approved by the Executive Board: the precautionary option under the SCF will be
(continued)

Conditionality and Phasing

13. **Conditionality under the LIC facilities is limited to macro-critical measures, consistent with the Fund's Guidelines on Conditionality.** The ECF and SCF require a UCT-quality¹² program, with conditionality limited to measures deemed critical for achieving the program's objectives and for monitoring program implementation. While the two facilities do not necessarily differ by the nature of the measures needed to make progress toward a stable and sustainable macroeconomic position (in the case of the ECF) or to restore such a position (in the case of the SCF), the adjustment program in an ECF context would in most cases be expected to have a greater structural content than in an SCF context. Moreover, the ECF would generally allow some more flexibility in the specification and monitoring of program objectives than the SCF, as the latter is aimed at restoring a stable and sustainable macroeconomic position within a shorter timeframe.

14. **Program monitoring is adapted to each facility, taking into account the duration of the adjustment process and the policy capacity.** Disbursements and reviews under the ECF and SCF would normally be semi-annual. Programs should include both quantitative performance criteria and an agenda of critical structural reforms that is monitored in a review-based framework, promoting country ownership and a focus on overarching reform objectives.¹³ In contrast to the two UCT facilities, RCF assistance is provided as an outright disbursement on the basis of ex-ante policy undertakings, consistent with the low access level and the limited need (or capacity) for adjustment. The RCF does not have program reviews or ex-post conditionality. However, in case of repeated use (for instance when RCF financing supports transition to an ECF), a track record of performance would be required in advance of the disbursement unless the financing need is primarily caused by an exogenous shock.

Access Policies

15. **Access policies aim to strike a balance between meeting members' financing needs and preserving the Fund's scarce concessional resources, while also supporting strong policies.** Access in individual countries will continue to be determined on a case-by-case basis, taking into account established criteria such as the member's balance of payments

activated at the beginning of 2010. On interest rates, the Executive Board approved a revised staff proposal with the following initial interest rate structure: 0.0/0.0/0.25 percent for the ECF, RCF, and SCF, respectively. The revised proposal is set out in Supplement 1.

¹² While there is no explicit definition, a UCT standard program generally refers to a set of policies that are adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period. In the case of the ECF, the timing of the necessary adjustment may extend over the medium- or longer term.

¹³ Recently, the Fund's Executive Board decided that structural performance criteria will no longer be established under Fund-supported programs. See *GRA Lending Toolkit and Conditionality: Reform Proposals*.

need and the strength of the program, underpinned by recently strengthened procedural safeguards.

16. **Global access limits and norms are proposed to promote uniformity of treatment in the allocation of concessional resources across countries with differing types of need, while preserving the recent doubling in limits and norms.** The proposed architecture establishes global annual and cumulative limits on total access under the three concessional facilities, similar to General Resources Account (GRA) access modalities. This helps ensure that the choice of facility is determined by its appropriateness in addressing the adjustment need and not the level of access. The proposed access limits broadly preserve the existing limits, on an annual average basis, that have applied since the doubling of limits in April 2009. Sub-limits apply to the RCF, given the absence of a UCT-quality program. Exceptional access criteria are defined more explicitly and take into account the size of the financing need, the strength of the program, and the possibility of blending.

17. **The proposed access norms apply uniformly to the UCT facilities and decline with total outstanding credit.** Norms would continue to be applied flexibly and represent neither ceilings nor floors. The new norms provide for more uniform and consistent access to resources across different LICs, compared to the current system under which PRGF norms decline with the number of prior arrangements and no norms apply to the ESF.

Financing Terms

18. **The proposed reform reduces the interest rate on the Fund's financial assistance to LICs while tailoring repayment terms to needs.** In April 2009, the IMFC called on the Fund to explore options for increasing concessionality. Having considered several alternatives, the proposal is to set an interest rate of $\frac{1}{4}$ percent for all three facilities, below the current $\frac{1}{2}$ percent applicable to the Fund's existing concessional facilities.*¹⁴ Reducing the interest rate is the most efficient way to enhance concessionality as it provides an immediate benefit to users, whereas lengthening maturities would provide additional liquidity in the outer years, when it might no longer be needed. In addition, the repayment period of the RCF is aligned with the ECF, based on existing PRGF-ESF terms, making the Fund's emergency assistance to PRGT-eligible members significantly more concessional than the subsidized ENDA and EPCA, which are based on GRA repayment terms. The SCF will have a somewhat shorter maturity, consistent with the short-term nature of the need and generally stronger debt service capacity of potential users. The SCF includes a small commitment fee that will be effective in cases of precautionary use, to reflect its insurance function.

* This initial staff proposal was subsequently revised. The subsequent staff proposal, which was adopted by the Executive Board, is provided in Supplement 1.

¹⁴ Separately, the Executive Board may consider the possibility of temporary interest relief for the poorest LICs to help them address the fallout from the global crisis.

Blending and PRGT Eligibility

19. **Blending rules are strengthened to preserve scarce concessional resources for the most vulnerable members while allowing higher access and positive signaling for countries moving to emerging market status.** The proposed architecture promotes more consistent use of blended arrangements by better tailoring the mix of concessional and GRA financing to individual members' needs, while establishing a clear link to debt vulnerability considerations, in addition to considering per capita income and market access criteria. A forthcoming paper will review the criteria for PRGT eligibility and the list of eligible countries to ensure that subsidy resources are appropriately channeled to those countries that need them most.

Role of the PSI

20. **The non-financial PSI remains a valuable complement to the three lending facilities.** The PSI can provide policy support over a sustained period, and signal, if used on a stand-alone basis, that the member has no balance of payments need, either actual or potential. Consistent with the recent reform of the ESF, PSI users could, if a short-term financing need arises, request an SCF (or RCF) without the need to cancel the PSI. Moreover, PSI users could also request concurrent precautionary support under the SCF, which may be particularly useful in periods of increased uncertainty or risk, such as during the current global crisis.¹⁵ PRSP requirements are made more flexible, in line with the ECF.

Link to Donor Financing

21. **Consistent with the Fund's unique role in LICs, all three facilities can provide moderate levels of liquidity support to help address macroeconomic imbalances, while the bulk of financial assistance is normally expected to come from donors.** As elaborated in the framework paper, Fund financial support, while concessional and aimed at similar long-term goals, is distinct from development assistance provided by others (often on more concessional terms) as it provides inter-temporal smoothing of adjustment rather than a permanent resource transfer. Fund lending to LICs is generally expected to catalyze such donor support, leveraging the Fund's scarce subsidy resources. Given the importance of foreign aid in many LICs, close coordination with donors, and the World Bank in particular, will remain critical to ensure consistent support from the international community.

Symmetry with the GRA

22. **The new LIC lending architecture provides greater symmetry with the Fund's non-concessional lending policies, while tailoring facilities to LIC-specific needs.** The

¹⁵ While a PSI can provide accelerated access to Fund concessional financing, it is not a substitute for a precautionary arrangement, as it does not guarantee access and does not provide for an immediate disbursement.

new architecture streamlines facilities and introduces some features that are similar to the GRA, including (i) a concessional SBA-like facility that can also be treated as precautionary, (ii) facilities design that is based on the type of financing need, (iii) global annual and cumulative access limits, and uniform exceptional access procedures, and (iv) relatively broad qualification criteria. Access limits are lower than in the GRA reflecting the comparatively low capital account vulnerability of LICs, the Fund's greater catalytic role in LICs, and scarce subsidy resources. At the same time, the new facilities take into account the specific needs of LICs, including through continued provision of concessional terms, focus on poverty reduction and growth, and availability of a facility for protracted problems. The new architecture also includes a unified instrument for concessional emergency support without the need for a UCT-quality program. In this context, it may be desirable to introduce a parallel non-concessional RCF-like window in the GRA and abolish EPCA and ENDA altogether.

Demand

23. **Demand for Fund concessional financing has surged during the ongoing global crisis and is projected to remain at roughly twice the historical average over the medium run.** Demand could reach up to US\$4 billion in both 2009 and 2010, and is expected to average just over US\$2 billion per year thereafter. While the distribution of demand across the three new lending facilities is difficult to predict, it is expected that in light of the prevalence of protracted financing and adjustment needs in the majority of LICs, the ECF will remain a central pillar of the LIC architecture over the medium term. However, the SCF would become more important over time as more LICs establish broadly sustainable macroeconomic positions. Demand for RCF financing is likely to be significant in periods of global volatility, but its use other than for exogenous shocks is expected to decline gradually as LICs build capacity to implement UCT-quality programs.¹⁶

Concessional Financing Framework

24. **The proposed concessional financing framework provides greater flexibility in allocating resources across the new facilities.** General subsidy and loan accounts under the PRGT would be able to provide resources to all three facilities. The demand projections imply a need to secure additional loan and subsidy resources.

¹⁶ As discussed in the framework paper, more than a quarter of LICs were in broadly sustainable macroeconomic positions at end-2007, while a majority continue to face entrenched adjustment needs, including about a third that are still in a fragile situation.

II. THE EXTENDED CREDIT FACILITY

This section summarizes the main elements of the proposed Extended Credit Facility (ECF).¹⁷

A. Background

25. **The PRGF has long been at the center of the Fund's financial engagement with LICs.** More than three-quarters of the current 78 PRGF-eligible countries have been supported under the Enhanced Structural Adjustment Facility (ESAF), created in 1987, and its successor, the PRGF, created in 1999 to give greater emphasis to poverty reduction and growth strategies.

26. **The PRGF has served its purpose well,¹⁸ though there is some scope for refinements to ensure that it continues to meet the needs of LICs.** A growing number of LICs with balance of payments problems that appear to be of a protracted nature have been reluctant to use the PRGF. This may reflect several factors: (i) a standardized three-year arrangement length; (ii) access norms that are not in line with country needs (norms decline with the number of ESAF/PRGF arrangements approved for each member since the late 1980s) and are seen as an added constraint on access that does not exist for other facilities; (iii) a perception that PRGF-supported programs contain heavy structural conditionality and little flexibility in the timing of the adjustment process; (iv) a perception of rigid or onerous PRSP requirements; and (v) a sense of stigma stemming from the perceived association with over-indebtedness and widespread poverty. Moreover, questions have been raised by some observers as to whether the PRGF is sufficiently concessional, especially in the current context of exceptionally low world interest rates.

27. **The proposed ECF preserves the basic structure and core requirements of the PRGF while updating it to address existing weaknesses and ensure consistency with other facilities under the new architecture.** First, the ECF allows more flexibility regarding the timing of PRS documents. Second, access rules are aligned with those of other facilities. Third, the ECF explicitly recognizes the flexibility in the country's choice of its adjustment path, underpinned by review-based conditionality focused on overarching goals. Fourth, the length of the arrangement can be extended more flexibly. Finally, to reduce debt vulnerabilities, the ECF would carry a lower interest rate than the current PRGF. The change in name underscores that all of the Fund's facilities for LICs share the same poverty reduction and growth objectives, and are distinguished primarily by the type and duration of the financing need and the conditionality standard.

¹⁷ The section was prepared by Paolo Dudine and Chris Lane.

¹⁸ See the framework paper and *The Fund's Facilities and Financing Framework for Low-Income Countries -- Supplementary Information* for an analysis of long-term macroeconomic performance of PRGF users.

B. Structure of the ECF

Purpose and Objective

28. **Like its predecessor, the PRGF, the proposed ECF provides medium- and longer-term concessional financing to LICs with protracted balance of payments problems.** It supports UCT-quality economic programs aimed at moving toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Use of the ECF is appropriate in cases where the resolution of the entrenched macroeconomic imbalances that underlie the balance of payments problem is expected to extend over the medium- or longer-term.¹⁹ The ECF also provides policy support and can catalyze additional financing from donors.

Eligibility and Qualification

29. **The proposed ECF is available to all PRGT-eligible members that face a protracted balance of payments problem.**²⁰ This implies an actual financing need over the course of the three-year arrangement, though not necessarily at the time the arrangement is approved or individual disbursements are made.²¹ Qualification also requires a finding by the Fund that the member is making an effort to strengthen substantially and in a sustainable manner the country's balance of payments position in the context of a policy program that meets UCT standards and supports progress toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

Duration and Repeated Use

30. **Assistance under an ECF arrangement is available for a three-year term, extendable for up to a total of two additional years.**²² After the expiration or cancellation of

¹⁹ Balance of payments needs that are expected to be resolved within two years would be addressed through the SCF (see below), while those that are expected to be resolved in three years or more would be addressed through the ECF. In cases where the adjustment process is expected to last two to three years, the choice between the two facilities would be determined on a case-by-case basis. For this assessment, substantial structural reform or capacity building needs, or frequently recurring financing needs would argue for an ECF.

²⁰ See paragraph 8 for a definition. As discussed in paragraph 9, consistent with the increasing diversity of LICs and establishment of the SCF, it is no longer presumed *a priori* that every low-income country faces a protracted balance of payments problem. Consistent with the delineation of the ECF and SCF, the choice of the appropriate facility would thus depend on a judgment of whether a member has a protracted problem.

²¹ As discussed in the framework paper, this standard allows the Fund to provide predictable support in countries facing entrenched structural problems and a long adjustment process, where the phasing of needs can be difficult to assess. While the possibility of disbursements in the absence of an actual financing need implies that a member could, in principle, treat its PRGF arrangement as precautionary, the Fund has discouraged members with PRGF arrangements from eschewing available disbursements.

²² This provides greater flexibility to members than the current PRGF (where the extension is limited to one year) and permits continued support in a variety of circumstances, including when disbursements have been re-

an ECF arrangement, additional ECF arrangements may be approved as long as the above qualification criteria are met.

Access Policies and Augmentations

31. **ECF access is subject to global access limits and guided by access norms, as elaborated in Section V.** Total access to concessional financing is limited to 100 percent of quota per year, and total outstanding concessional credit at 300 percent of quota. These limits can be exceeded in exceptional circumstances. Access is determined on a case-by-case basis taking into account established criteria such as the balance of payments need and strength of the program. Access is guided by norms, set at 120 percent of quota per arrangement, or 75 percent of quota if total outstanding concessional credit is 100 percent of quota or higher.²³ High-access ECF financing requests are subject to uniform procedural safeguards. Access can be phased according to expected financing needs, and may be augmented to help meet a larger balance of payments need or to support a strengthening of the program.

Financing Terms

32. **Financing under the proposed ECF would be based on current PRGF-ESF terms, though with a reduced interest rate (see Section V).** Credit under the ECF would carry a ¼ percent interest rate, half the current PRGF rate.* This would help safeguard debt sustainability for countries whose protracted financing and adjustment needs are likely to expose them to significant debt vulnerabilities. The repayment period is 5½ to 10 years.

Concurrent Use

33. **The ECF cannot be used concurrently with the Fund's other concessional or non-financial program instruments.** Should additional balance of payments needs arise during an ECF arrangement, an augmentation of access would be the appropriate response, and a member could not obtain SCF financing. A member could also not obtain RCF financing with an ECF arrangement in place and on track. At the time of an ECF approval, any previously existing SCF and PSI would need to be cancelled.²⁴ The ECF can be used

phased, more time is needed to implement envisaged policies or reforms, a shock has led to additional financing and adjustment needs, more time is needed to design a successor medium-term program, or the protracted balance of payments problem is expected to be resolved in less than three more years. As is currently the case, extensions can be combined with augmentations of access if warranted based on established criteria.

²³ The current access norms for PRGF arrangements are tapered depending on the number of prior arrangements approved for the member.

* A revised staff proposal was approved by the Executive Board: the initial interest rate for the ECF will be zero. This proposal is set out in Supplement 1.

²⁴ The ECF is designed for countries with protracted balance of payments problems, whereas the PSI is designed for countries with a sustainable macroeconomic position without financing needs.

concurrently with upper credit-tranche arrangements under the GRA (normally with an EFF arrangement) in cases where the member meets the criteria for blending concessional and GRA resources (as defined in Section V).

Conditionality and PRSPs

34. **ECF-supported programs require UCT conditionality aimed at achieving the objectives of the arrangement as defined above.** This requires a commitment by the authorities to implement a set of policies that are adequate to achieve significant progress toward a stable and sustainable macroeconomic position. The appropriate adjustment path would be determined on the basis of the country's development needs, policy constraints, and the severity of the balance of payments needs. The adjustment effort required to attain full sustainability might extend beyond the duration of the ECF arrangement. In such circumstances, conditionality would be limited to those policies that are critical to achieving the part of the overall adjustment process that is covered by the arrangement. Given its medium- to longer-term focus, the ECF is expected to allow for some more flexibility in the specification and timing of policies than the SCF.

35. **Conditionality will include quantitative performance criteria, and typically also quantitative and structural benchmarks, as well as prior actions if necessary.** Consistent with the Fund's Guidelines on Conditionality, the Fund may grant waivers for nonobservance of performance criteria if it is satisfied that the program objectives can still be achieved, either because the nonobservance is temporary or minor, or because the authorities have taken corrective action. Quantitative performance criteria and reviews would normally be set on a semi-annual basis (and, in exceptional circumstances, on a quarterly basis), and quantitative benchmarks normally on a quarterly basis, in both cases typically covering all test dates that fall within the 12 months after the Board meeting (initial approval or review).

36. **Programs should include an agenda for macro-critical structural reforms, with some flexibility on the timing of the measures.** The program should identify the overarching objectives of the structural reform agenda for the arrangement period as a whole, more specific objectives for periods covered by individual reviews, and any related structural benchmarks that are critical for achieving the program's objectives. Reviews will provide the primary tool for monitoring performance on the structural elements of the program, by judging progress relative to the relevant objectives. Under the ECF, structural benchmarks would not require a specific target date, but would in any case be linked to one or more program reviews. This approach would be more flexible than for the SCF (and the current PRGF).

37. **A program supported under the ECF should be based on the country's own development strategy and aim to safeguard social objectives.** This strategy should be set out in a PRS document that is issued to the Executive Board no later than the time of the second ECF review (allowing for greater flexibility than the PRGF where the PRS document

must have been issued by the time of approval of the arrangement).²⁵ The ECF should aim to support policies that safeguard social and other priority spending.²⁶ The Letter of Intent for a new ECF request should indicate how the program advances the country's poverty reduction and growth objectives.

Disbursements, Monitoring, and Reviews

38. **Disbursements and reviews are normally both semi-annual.** In exceptional circumstances, reviews and disbursements could also be both at quarterly intervals, for instance in the context of significant short-term volatility and/or uncertainty. The first disbursement is made available upon approval of the arrangement, and subsequent disbursements will be conditional on observance of performance criteria and a program review that confirms satisfactory progress in implementing the economic program. Reviews evaluate performance under the program against its objectives, based on a backward-looking assessment—against quantitative performance criteria, structural benchmarks, and prior actions—to ensure that program objectives were met, and a forward-looking assessment to ensure that policy commitments are in line with the program objectives. At the time of approval and for each review, the authorities' Letter of Intent would present or update their policy program. A staff report would accompany this document and provide an overall assessment of performance and policy commitments.

Other Fund Guidelines and Policies

39. **Unless discussed otherwise, the ECF will have the same modalities and other policy requirements as the PRGF.** For example, (i) a safeguards assessment report should be completed no later than at the first review under an ECF arrangement with the general principle that staff aim to complete the assessment prior to Executive Board approval of a new arrangement²⁷; (ii) access would count toward the policy on longer-term program engagement; (iii) performance under an ECF could count toward the track record of strong policy performance under Fund-supported programs required for the HIPC decision point

²⁵ A poverty reduction strategy document may take the form of an interim PRSP, a PRSP preparation status report, a full PRSP or an Annual Progress Report of a PRS. As is current practice, Joint Staff Advisory Notes are required for new PRSPs. In addition, members are expected to update their PRS documents periodically. Under the ECF and PSI, for each review starting with the second review, a PRS document must have been issued to the Board normally within the previous 18 months.

²⁶ As under the PRGF at present, priority spending could be monitored through indicative floors. The definition of priority spending should be established by the member, in accordance with the country's poverty reduction and growth strategy, and hence can be expected to vary from country to country. The Fund's policy to limit the use of wage bill ceilings is consistent with efforts to safeguard social spending.

²⁷ See Public Information Notice 05/170 (*IMF Executive Board Concludes Review of the Safeguards Assessments Policy*), *Safeguards Assessments – Review of Experience*, and *Safeguards Assessments – Review of Experience and Next Steps*.

and completion point,²⁸ and (iv) the 24-month cycle for Article IV consultations applies to members with an ECF arrangement. Supplement 1 will address in greater detail issues related to the applicability of existing policies to the new LIC facilities.

C. Transitional Arrangements

40. **All existing PRGF arrangements will be automatically converted into ECF arrangements once the decision adopting the ECF becomes effective.** From this point on, debt service on any new disbursements will be based on the ECF terms and all other provisions of the ECF apply, unless otherwise indicated in this paper. Credit outstanding under the PRGF and ESF would count toward the annual and cumulative access limits and access norms that will apply to the ECF and the other concessional facilities, though transitional arrangements apply to countries with relatively high levels of credit outstanding (see Section V. D).

III. THE STANDBY CREDIT FACILITY

*This section summarizes the main features of the proposed Standby Credit Facility (SCF).*²⁹

A. Background

41. **The Fund's toolkit contains important gaps with respect to short-term and precautionary support to LICs** (see discussion in the framework paper). Short-term concessional financing is currently available only to countries facing a sudden and exogenous shock and thus qualifying for the ESF, but not for needs arising from domestic circumstances such as policy slippages, banking troubles, or a decline in confidence. In practice, it can be difficult to distinguish between exogenous and endogenous factors. Moreover, the current toolkit does not include a concessional precautionary facility to address potential balance of payments needs. Precautionary support has become increasingly relevant for LICs as many are beginning to integrate into global markets and developing their financial sectors. While a PSI can provide accelerated access to Fund concessional financing, it is not a full substitute for a precautionary arrangement, as it does not guarantee such access and does not provide for an immediate disbursement.

42. **In their discussion on March 20, 2009, most Executive Directors, on balance, supported the creation of a concessional short-term instrument similar to the GRA's SBA to close these gaps.** The SCF would effectively replace the ESF-HAC while broadening its use to address all types of short-term balance of payments needs, including

²⁸ Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations, Section III, paragraph 2(c).

²⁹ The section was prepared by Eddy Gemayel, Aurelie Martin, and Manrique Sáenz.

those that are not primarily caused by sudden exogenous shocks, and to provide an option of concessional support on a precautionary basis.

B. Structure of the SCF

Purpose and Objectives

43. **The proposed SCF provides concessional financing to LICs with short-term balance of payments needs.**³⁰ It covers both actual and potential financing needs and supports UCT-quality economic programs aimed at restoring a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. The facility is targeted at LICs that have established a track record of sustainable macroeconomic policies and do not face protracted balance of payments problems, but may experience episodic, short-term financing and adjustment needs. Specifically, the SCF is designed to provide assistance in cases where the macroeconomic imbalances that underlie the country's balance of payments need are expected to be resolved within a significantly shorter timeframe than under an ECF arrangement. Countries facing potential rather than immediate financing needs could use the SCF on a precautionary basis. Countries facing protracted balance of payments problems should be supported by an ECF arrangement or, if appropriate, RCF financing.³¹ The SCF also provides policy support and can catalyze additional financing from donors.

Eligibility and Qualification

44. **The proposed SCF is available to PRGT-eligible members facing an actual or potential balance of payments need.**³² An SCF can be approved based on a potential financing need, in which case the country authorities would treat it as precautionary. Each disbursement requires a representation of a balance of payments need, as defined in the context of the GRA.³³ Qualification also requires a finding by the Fund that the member is making an effort to resolve the balance of payments need in the context of a policy program that meets UCT standards and aims to restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction. Qualification is presumed for

³⁰ See footnote 8 for a definition.

³¹ See footnote 20 for cases where the balance of payments need is expected to be resolved within two to three years.

³² For the purpose of this qualification criterion, the SCF cannot be used if the predominant cause of the balance of payments difficulties that underlie the short-term need is a withdrawal in financial support by donors, since short-term financing assurances are critical for achieving the objectives of an SCF arrangement.

³³ As in the GRA, the Fund will not challenge this representation prior to the disbursement, but (as under the current ESF) it will be able to impose a repayment expectation and take other remedial measures after the disbursement if it were to determine that the disbursement took place in the absence of need.

countries with an on-track PSI that face a previously unanticipated immediate or potential balance of payments need.

45. **The SCF is not intended for cases where the financing need is caused by a protracted balance of payments problem.** To qualify for the SCF, there should be an expectation that the member's financing and adjustment needs would be resolved within two years (and in any case in less than three years), thus restoring a sustainable macroeconomic position. Countries facing both protracted balance of payments problems and additional financing needs caused by a shock are expected to be supported by the ECF.

Duration and Repeated Use

46. **The duration of an SCF arrangement would normally be 12–18 months, up to a maximum of two years.** As the SCF is intended to address episodic short-term needs, its use would normally be limited to two and a half out of any five years, assessed on a rolling basis.³⁴ Subject to these limits, an SCF arrangement can be extended or cancelled, and consecutive arrangements could be approved. If financing and adjustment needs persist beyond the short term, continued support would normally be provided under an ECF arrangement.

Access Policies and Augmentations

47. **SCF access is subject to global access limits and guided by access norms, as elaborated in Section V.** Total access to concessional financing is limited to 100 percent of quota per year, and total outstanding concessional credit at 300 percent of quota. These limits can be exceeded in exceptional circumstances. Access is determined on a case-by-case basis taking into account established criteria such as the balance of payments need and strength of the program. Access is guided by norms, set at 120 percent of quota per 18-month arrangement, or 75 percent of quota if total outstanding concessional credit is 100 percent of quota or higher. Access norms are adjusted proportionally for SCF arrangements of durations other than 18 months to keep annualized average access unchanged. High-access SCF financing requests are subject to uniform procedural safeguards. Access can be phased according to expected financing needs, and may be augmented to help meet a larger balance of payments need or to support a strengthening of the program.

48. **A member with a potential but not immediate balance of payments need would treat access under the SCF as precautionary.*** As in the case of the SBA, every SCF

³⁴ This restriction aims to limit overlap with the ECF and ensure that the SCF is normally not used by members facing protracted balance of payments problems. In rare cases, it may be appropriate to allow for minor deviations from this rule, for instance if a member experienced three distinct large exogenous shocks in a five-year period.

* A revised staff proposal was approved by the Executive Board: the precautionary option under the SCF will be activated at the beginning of 2010. This proposal was set out in Supplement 1

arrangement is in principle precautionary in nature, providing the member with the possibility of obtaining an arrangement in the absence of an actual financing need and requesting a disbursement should a financing need arise. Members retain and accumulate the rights to request disbursements during the period of the arrangement, provided they have concluded the most recent scheduled review.³⁵ If, at the time of approval of an arrangement, there is a potential but no actual balance of payments need, annualized access would be limited to 50 percent of quota, with the possibility to augment access at a later stage should a larger actual financing need arise.³⁶

Financing Terms

49. **Financing under the proposed SCF would be based on a lower interest rate and shorter repayment schedule than current PRGF-ESF terms (see Section V).** Repayment is subject to a 4-year grace period and 8-year maturity, reflecting the short-term nature of the need and comparatively strong debt service capacity of potential users. The interest rate is $\frac{1}{4}$ percent, half the current PRGF-ESF rate. A commitment fee of 15 basis points would apply to each approved disbursement that is not drawn, refundable proportionally upon actual disbursement. As in the GRA, there would only be an effective charge in case of precautionary use, but in contrast to the GRA (where the fee applies to amounts committed over the next twelve months), the SCF would not involve any upfront payment for non-precautionary use.

Concurrent Use

50. **The SCF cannot be used concurrently with the Fund's other concessional facilities.** Should additional balance of payments needs arise during an ECF arrangement, an augmentation of access would be the appropriate response. A member could not obtain RCF financing with an SCF arrangement in place and on track. The SCF can be used concurrently with other upper credit-tranche GRA arrangements (SBA, EFF) in cases where the member meets the criteria for blending concessional and GRA resources (as defined in Section V).

51. **The SCF can be used flexibly in conjunction with a PSI.** While there is no automatic link between a PSI and access to the SCF, qualification for the SCF would be presumed for countries with an on-track PSI. An on-track PSI, with the associated UCT conditionality, would also reduce the time normally required to design an SCF-supported

³⁵ In contrast to the GRA's SBA, the design of the SCF avoids "blackout periods" by allowing disbursements based on completed reviews, without the need to verify observance of performance criteria whose test dates have passed while the date for the related scheduled review has not yet passed. Any potential safeguards concerns are limited due to the relatively low access available in cases of precautionary SCF use.

³⁶ The cap on precautionary access to the SCF limits possible over-commitment of scarce concessional resources. Whereas high-access precautionary arrangements may be needed in emerging market economies, given potential large capital account shocks, these risks are less prevalent in LICs.

program.³⁷ There would be no need to cancel the PSI, and an SCF could run concurrently with a PSI.³⁸ PSI users can also request concurrent precautionary support under the SCF.³⁹

Conditionality and PRSPs

52. **An SCF-supported program requires UCT conditionality aimed at achieving the objectives of the arrangement.** This requires a commitment by the authorities to implement a set of policies adequate to achieve a stable and sustainable macroeconomic position in the short term. Conditionality is limited to macroeconomic and structural measures considered critical for meeting program objectives. The short time frame will generally permit less flexibility in the choice and timing of these measures, compared to the ECF.

53. **Conditionality will include quantitative performance criteria, and typically also quantitative and structural benchmarks, as well as prior actions if necessary.** Consistent with the Fund’s Guidelines on Conditionality, the Fund may grant waivers for nonobservance of performance criteria if it is satisfied that the program objectives can still be achieved, either because the nonobservance is temporary or minor, or because the authorities have taken corrective action. The frequency of quantitative performance criteria would be aligned with reviews and disbursements (see below), while quantitative benchmarks would normally be on a quarterly basis, in both cases typically covering all test dates that fall within the 12 months after the Board meeting (initial approval and review).

54. **Programs should include structural reforms that are critical for resolving the balance of payments need.** The program should identify the main structural objectives for the arrangement period as a whole, more specific objectives for periods covered by individual reviews, and any related structural benchmarks that are critical for achieving the program’s objectives. Reviews will provide the primary tool for monitoring performance on the structural elements of the program, by judging progress relative to the relevant objectives.

55. **Use of the SCF does not require a PRS document,⁴⁰ but SCF-supported programs should be aligned to the country’s poverty reduction and growth objectives.**

³⁷ Modification of the PSI-supported program would not be necessary in all cases, but would be appropriate if the emergence of a balance of payments need is likely to affect a country’s ability to meet program objectives.

³⁸ Concurrent PSI/SCF arrangements would have modalities akin to those currently applicable when a member receives financial assistance under the ESF-HAC while maintaining a PSI with regard to program documentation and program targets. However, in contrast to existing modalities, the review schedule for concurrent use of the SCF and PSI could be aligned either based on the “fixed review cycle” of a PSI or on the more flexible review cycle of the SCF. Other PSI requirements would continue to apply, however, including the PRS requirement.

³⁹ This may be useful in periods of increased uncertainty or risk.

⁴⁰ This is consistent with the SCF’s short-term focus and current policy requirements for the ESF-HAC.

Program design would be expected to be consistent with the medium-term goals of a country's PRS if one exists. The SCF should also aim to support policies that safeguard social and other priority spending.⁴¹ The Letter of Intent for a new SCF request should indicate how the program advances the country's poverty reduction and growth objectives. If financing and adjustment needs persist beyond the short term, SCF users would typically move to an ECF arrangement, which would then be underpinned by a PRS document.

Disbursements, Monitoring, and Reviews

56. **Disbursements and reviews are normally both semi-annual.** As is the case for an SBA arrangement under the GRA, reviews and disbursements can also be both at quarterly intervals; appropriate phasing would depend on the arrangement's duration, level of access, the balance of payments need, the volatility of the economic situation, and capacity constraints on the part of the authorities. The first disbursement is made available upon approval of the arrangement, and subsequent disbursements will be conditional on a program review that confirms satisfactory progress in implementing the economic program. For precautionary SCF arrangements, if a financing need arises during the arrangement period, the authorities can draw on undrawn balances provided the most recent scheduled review has been completed. Reviews evaluate performance under the program against its objectives, based on a backward-looking assessment—against quantitative performance criteria, structural benchmarks, and prior actions—to ensure that program objectives were met, and a forward-looking assessment to ensure that policy commitments are in line with the program objectives. At the time of approval and for each review, the authorities' Letter of Intent would present or update their policy program. A staff report would accompany this document and provide an overall assessment of performance and policy commitments.

Other Fund Guidelines and Policies

57. **The decision establishing the SCF would generally make applicable to the SCF all Fund decisions and instruments pertaining to the current PRGF, unless otherwise proposed in this paper.** In particular: (i) a member would need to have a safeguards assessment completed at least by the time of the first program review, (ii) SCF use would count toward the policy on longer-term program engagement, (iii) performance under the SCF could count toward a track record of strong policy performance required for the decision point and completion point under the HIPC Initiative, and (iv) in line with the practice for program countries, the 24-month cycle for Article IV consultations will apply to members with an SCF arrangement.

⁴¹ As under the ECF, priority spending could be monitored through indicative floors (see footnote 27).

C. Transitional Arrangements

58. **Existing ESF-HAC arrangements would remain in effect until their expiration or cancellation, and would not be converted into SCF arrangements.** Current ESF-HAC terms would continue to apply to these arrangements. Moreover, new ESF-HAC arrangements could still be approved within three months of the decision establishing the SCF. Credit outstanding under the PRGF and ESF would count toward the annual and cumulative access limits and access norms that will apply to the SCF and the other concessional facilities, though transitional arrangements apply to countries with relatively high levels of credit outstanding (see Section V.D).

IV. THE RAPID CREDIT FACILITY

This section summarizes the main features of the proposed Rapid Credit Facility (RCF).⁴²

A. Background

59. **LICs may currently request emergency assistance from the Fund under three specialized instruments, two of which are GRA facilities and available to all members** (Box 1). These provide a limited amount of financial assistance to countries facing balance of payments needs stemming from exogenous shocks (ESF-RAC), natural disasters (ENDA), or the aftermath of conflict (EPCA). A common feature of these facilities is that they provide financial assistance rapidly, and without a requirement to implement a UCT-quality program. Financial assistance takes the form of single, self-contained disbursements on the basis of limited qualification requirements and *ex ante* policy undertakings.

Table 2. PRGF-Eligible Countries: Incidence of Emergency Assistance Drawings, and Average Access In percent of country quota 1/

	1990-1994	1995-1999	2000-2004	2005-2009
EPCA				
number of cases	0	9	6	9
average access in percent of quota	n.a.	14.7	11.3	12.5
maximum/minimum access	n.a./n.a.	25/10	12.5/10	12.5/12.5
ENDA				
number of cases	1	3	3	4
average access in percent of quota	25.0	33.3	25.0	31.3
maximum/minimum access	25/25	50/25	25/25	50/25
ESF-RAC				
number of cases	0	0	0	8
average access in percent of quota	n.a.	n.a.	n.a.	38.8
maximum/minimum access	n.a.	n.a.	n.a.	50/25

Sources: Fund Board reports, and staff calculations.

1/ Including arrangements proposed for Board approval.

60. **While these facilities have generally achieved their intended purposes, gaps and overlaps remain and there is significant scope for streamlining.** In particular, the existing structure of non-UCT facilities for LICs lacks flexibility due to its compartmentalization, providing assistance to members in narrowly defined circumstances, but not to others in

⁴² The section was prepared by Paul Jenkins and Samar Maziad.

broadly similar situations. The most notable gap is the absence of an instrument to assist countries emerging from periods of fragility or instability not associated with the aftermath of an armed conflict. Furthermore, assistance under subsidized EPCA and ENDA is provided on less favorable terms than for other concessional facilities, even though it is often used by countries at similar levels of capacity or income.⁴³ Finally, overlaps between the three facilities can create inconsistencies in access, financing terms, and conditionality.

61. **In their discussion in March 2009, most Executive Directors, on balance, favored the creation of a unified concessional emergency facility for LICs to address these gaps and overlaps.** The proposed RCF would replace the ESF-RAC as well as the subsidized use of ENDA and EPCA,⁴⁴ while providing flexible financing to meet a variety of urgent balance of payments needs.

B. Structure of the RCF

Purpose and Objective

62. **The proposed RCF provides low-access concessional financing with limited conditionality to address a variety of urgent balance of payments needs.** These financing needs include those caused by exogenous shocks, natural disasters, and emergence from conflict or other disruptive situations. The RCF is designed for circumstances where a UCT conditionality is either not necessary, for instance due to the transitory and limited nature of the financing and adjustment needs (as may be the case with temporary shocks), or not feasible, for instance in cases where institutional and policy capacity is highly constrained (as may be the case in countries emerging from conflict or other episodes of fragility or instability).⁴⁵ In the latter case, the member would be expected to make efforts to move to a UCT program (typically under the ECF), in which case the transition could be supported by repeated use of the RCF. The RCF also provides policy support and is expected to play an important role in catalyzing additional financing from donors.⁴⁶

⁴³ ENDA and EPCA are GRA facilities with interest subsidies available via a separate administered account for PRGF-eligible members if resources permit. Given their shorter repayment period, resources provided through these mechanisms are less concessional than the proposed RCF, even when an interest subsidy is provided.

⁴⁴ ENDA and EPCA would continue to exist as GRA facilities to all members experiencing natural disasters or a post-conflict situation, though (as noted above) consideration could be given to replacing them with a nonconcessional version of the RCF.

⁴⁵ The Fund's broader (non-financial) policies and practices with respect to its engagement with countries in these situations, for example provision of technical assistance and cooperation with the international community, remain unchanged.

⁴⁶ This is especially important in countries emerging from a conflict or other disruptive episodes, where coordination with donors is critical.

Box 1: The Fund's Existing Emergency Policies

The Emergency Natural Disaster Assistance (ENDA) provides financial assistance through an outright purchase to members recovering from a natural disaster. In order to receive assistance under ENDA, the member is required to describe the general policies it plans to pursue. It is also expected to cooperate with the Fund in an effort to find solutions for its balance of payments difficulties and avoid implementing policies that could compound the problems caused by the disaster.

The Emergency Post-Conflict Assistance (EPCA) provides assistance to countries that have balance of payments needs after a conflict. Though the member does not have sufficient institutional capacity to implement a UCT-quality program, it is required to have sufficient capacity and commitment for policy planning and implementation. The role of Fund assistance for these countries is meant to meet urgent balance of payments needs, help rebuild reserves, and catalyze donor support in a concerted effort to address the aftermath of a conflict in a comprehensive way. In order to receive assistance (outright purchase) under EPCA, a country is expected to present a statement of economic policies; a quantified macroeconomic framework; and a statement indicating its intention to move to a UCT-quality program as soon as possible.

The Exogenous Shocks Facility (ESF)-Rapid Access Component (RAC) is intended to assist LICs facing balance of payments needs caused by exogenous shocks. The ESF-RAC provides quick assistance in the form of an outright disbursement. In order to receive assistance under the ESF-RAC the member is expected to outline its policy commitments and/or actions. Approval of assistance is granted where the Fund is satisfied that the member will implement an appropriate set of policies to address the shock, and that the member, more generally, will cooperate with the Fund in an effort to find, where appropriate, solutions for its balance of payments difficulties.

Table 3: The Fund's Existing Emergency Policies

	ENDA	EPCA	ESF-RAC
Situation	Natural disaster	Post-conflict	Exogenous shock
Policies	Non-UCT	Non-UCT	Non-UCT
Financing source	GRA	GRA	PRGF-ESF Trust
Outright Purchase	Yes	Yes	Yes
Annual Limit*	50	25	50
Cumulative Ceiling*	Unspecified	50	Unspecified; 2 uses in 5 yrs
Financial Terms	GRA; possible subsidy	GRA; possible subsidy	PRGF

* Percent of quota

Eligibility and Qualification

63. **The RCF is available to PRGT-eligible countries facing an urgent balance of payments need.** An urgent need is characterized by a financing gap that, if not addressed, would result in an immediate and severe economic disruption. To help ensure that the RCF does not support continued weak policies or create moral hazard, a member facing such an urgent need would qualify for the RCF only if one or more of the following three circumstances apply: (i) the balance of payments need was caused primarily by a sudden,

well-defined exogenous shock,⁴⁷ in which case a member qualifies under a “shocks window;” or (ii) no RCF disbursements have been made in the past three years; or (iii) the country has established a track record of adequate macroeconomic policies (see below). In addition, the RCF cannot be used if the predominant cause of the balance of payments difficulties that underlie the financing need is a withdrawal in financial support by donors.

64. **The RCF should not be used if a UCT-quality program would be feasible and more appropriate.** Specifically, a member would normally only qualify for the RCF if either (i) the balance of payments need is expected to be resolved within one year and no major policy adjustments are necessary; or (ii) a UCT-quality Fund-supported program cannot be put in place owing to limited policy implementation capacity and/or the urgent nature of the balance of payments need.

65. **Qualification requires several ex-ante policy undertakings.** The member would need to outline the policies it plans to pursue, and reach any additional understandings as are necessary to provide assurance that inappropriate policies will not compound its balance of payments difficulties. Moreover, sufficient policy capacity and commitment must exist to safeguard Fund resources, and the Fund would need to assess that the member will cooperate with the Fund in an effort to find, where appropriate, solutions for its balance of payments difficulties.

Duration and Repeated Use

66. **Resources under the facility are provided as an outright disbursement without a time-bound arrangement or review-based program.** The facility can flexibly accommodate both one-off disbursements to LICs facing an urgent financing need of limited duration and repeated disbursements over a (limited) number of years in cases of a recurring or on-going financing need, including in cases where the RCF facilitates eventual transition to a UCT arrangement once adequate capacity has been built. In the latter case, disbursements under the facility could be made up to twice a year subject to the conditions for repeated use of the RCF.

67. **The frequency and size of disbursements is limited by qualification requirements and access policies.** Repeated use is *de facto* constrained by the relatively low cumulative access limit and by the requirement that a repeated disbursement can only be approved based on an exogenous shock or a satisfactory track record.

⁴⁷ 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.

Access Policies

68. **Access under the RCF is limited to 25 percent of quota per year and 75 percent of quota on a cumulative basis.** Augmented access limits apply under the shocks window, where access up to 50 percent of quota per year (and up to 100 percent on a cumulative basis) could be made available if both: (i) the primary cause of the balance of payments need is a sudden, well-defined exogenous shock other than a withdrawal in financial assistance by donors, and (ii) existing and prospective policies are sufficiently strong to address the shock. Access cannot exceed the size of the balance of payments need, and under the shocks window, access can also not exceed the size of the exogenous shock. Access is also subject to global limits on total concessional financing, as defined in Section V.

69. **There are no norms for access under the RCF, and the access limits should not be considered norms.** Access is determined on a case-by-case basis taking into account established criteria such as the balance of payments need and strength of the authorities' policies (see Section V). The determination of access would also be based on the expectation that financing from sources other than the Fund would make substantial contributions to meeting the financing needs.⁴⁸ If repeated use is envisaged, access would normally be set at a level that would allow more than one disbursement per year.⁴⁹ Requests for access to RCF resources are subject to uniform procedural safeguards (see Section V).

Financing Terms

70. **Financing under the RCF is based on the same terms as the ECF (see Section V).** Credit outstanding under the RCF would carry a ¼ percent interest rate, half the current PRGF-ESF rate.* The repayment period is 5½ to 10 years.⁵⁰

Concurrent Use

71. **The RCF can be combined with non-financial programs (SMP and PSI).** The RCF cannot be combined with an existing UCT arrangement, as additional financing needs

⁴⁸ Accordingly, resources provided under the RCF would in all but exceptional cases be well below the balance of payments need.

⁴⁹ For instance, in cases where the balance of payments need is expected to be protracted, RCF financing could facilitate a transition to an ECF arrangement. In this case, it may be appropriate to allow for two disbursements per year.

* A revised staff proposal was approved by the Executive Board: the initial interest rate for the RCF will be zero. This proposal is set out in Supplement 1.

⁵⁰ The lower interest rate makes the RCF somewhat more concessional than the current ESF-RAC, while the repayment period makes it significantly more concessional than the subsidized ENDA and EPCA, which are based on shorter GRA maturities. This would help safeguard debt sustainability for RCF users, many of which may face protracted financing and adjustment needs that could expose them to significant debt vulnerabilities.

would be best addressed through an augmentation of access under such an arrangement, except if the arrangement is off-track and the member meets qualification criteria for the RCF.⁵¹ The RCF can be blended with GRA resources provided through ENDA and EPCA if the member meets criteria for blending defined in Section V, although total annual and cumulative access would normally be expected to remain as defined above. As with the ESF-RAC, the RCF could be used concurrently with an off-track UCT arrangement solely in case of an exogenous shock, with policies adequate to address this shock.

Conditionality and PRSPs

72. The RCF does not require a UCT quality economic program and does not include ex-post conditionality. Before Board approval, members would need to provide the *ex ante* policy undertakings as described above. Prior actions could be established if necessary, although this would be expected only in exceptional circumstances.

73. Members that have already received RCF financing in the previous three years would require a track record of adequate macroeconomic policies, except if the member qualifies under the shocks window. Such a track record would normally cover about six months immediately prior to the disbursement and be based on monitorable objectives (typically involving quantitative and structural benchmarks) established at the time of a recent RCF disbursement, under an SMP, or under any other Fund-supported program. In exceptional cases, where no relevant pre-determined monitorable objectives exist (for instance because of the passage of time since the last disbursement), the track record could be based on the Fund's assessment that macroeconomic policies have been adequate at least over the most recent six-month period. The determination of the monitoring objectives should be aimed at supporting adequate policies to address the urgent balance of payments needs and, if relevant, facilitating the member's transition to a UCT-quality program.

74. Use of the RCF does not require a PRS document,⁵² but policies supported under the RCF should be aligned to the member's poverty reduction and growth objectives. In case of repeated RCF use to facilitate a transition to an ECF, monitorable objectives established at the time of an RCF disbursement should be consistent with the medium-term goals of the country's poverty reduction and growth strategy, if one exists, and efforts should be made to prepare such a strategy if it does not exist. In addition, policies supported under the RCF should aim to allow for appropriate safeguards on social and other priority

⁵¹ This would typically only occur in case of an exogenous shock where adequate macroeconomic policies exist to address the shock, but more time is needed to bring the program back to UCT standards.

⁵² This is consistent with the current policy requirements for the ESF-RAC.

spending.⁵³ The Letter of Intent for a RCF request should indicate how the authorities' policies advance the country's poverty reduction and growth objectives.

Disbursements and Monitoring

75. **An outright disbursement is made immediately following Board approval.** The Board decision would be based on a short staff report and a Letter of Intent outlining the member's policy commitments. Where repeated use of the RCF is envisaged, it is presumed that the expectations for future performance, including where possible monitorable quantitative targets and structural objectives, would be outlined in the Letter of Intent, with staff reports for subsequent disbursements providing an assessment of past policy performance against these goals.⁵⁴

Other Fund Guidelines and Policies

76. **Several additional policies apply to the RCF.** Particularly, the RCF will have similar modalities and policy requirements to the current ESF-RAC, the ENDA, and the EPCA. In particular: (i) a member's request for assistance under the RCF will require a commitment to undergo a safeguards assessment and an authorization for Fund staff to have access to the central banks' most recently completed external audit reports (whether or not the audit is published) and to hold discussions with the external auditors;⁵⁵ the timing and modalities of the assessment will be determined on a case-by-case basis;⁵⁶ it is presumed, however, that the safeguards assessment would have been completed before Board approval of any subsequent arrangement to which the Fund's safeguards policy applies; (ii) disbursements under the RCF will not count toward assessment of longer-term program engagement, (iii) a period of performance under the monitorable track record required for repeated use of the RCF could count toward the track record of strong policy performance required for HIPC decision point, and (iv) flexibility (as under the current EPCA) would be practiced in applying the Fund's policy of non-toleration of arrears to official creditors, and the lending into arrears policy.

⁵³ This would typically include discussion of priority spending areas in the Letter of Intent.

⁵⁴ This would be consistent with current practice under EPCA.

⁵⁵ The authorization is to be provided at the time when the member makes a formal written request for RCF resources.

⁵⁶ The case-by-case approach is consistent with the current safeguards policy requirements for EPCA, where the timing and procedures for an assessment depend on the institutional and administrative capacity of the central bank. Under ESF-RAC, a commitment to undergo a safeguards assessment is required prior to initial disbursement, and the assessment should normally be completed before approval of disbursements under the RAC for a second shock within a five-year period following initial disbursement.

C. Transitional Arrangements

77. **Past drawings under the ESF-RAC, as well as the subsidized ENDA and EPCA, would count toward the annual and cumulative access limits under the RCF.** For the purpose of assessing repeated use, past use of ENDA, EPCA and the ESF-RAC does not count toward past use of the RCF, so that a member's first RCF disbursement after the Decision becomes effective will not require a policy track record.

V. ACCESS, FINANCING TERMS, AND BLENDING

*The proposed facilities architecture includes new access policies, financing terms, and blending rules designed to meet members' financing needs while promoting uniformity of treatment, supporting strong economic policies, limiting debt vulnerabilities, and protecting the Fund's scarce concessional resources. This section explains the proposed policies in these areas and the rationale behind them.*⁵⁷

A. Access

78. **With growing demand and the changing nature of LIC needs, weaknesses in current access policies have become evident in recent years.** Prior to the April 2009 Board decision to double access limits under the PRGF and ESF, PRGF access limits and norms had eroded over time in relation to GDP and trade, reducing the Fund's ability to assist LIC members effectively (Figure 2).⁵⁸ The recent adjustments have restored access limits to their 1998 levels in percent of GDP,⁵⁹ consistent with the recent doubling in GRA access limits. However, several weaknesses have remained. For instance, access limits are defined per arrangement, which can lead to arbitrage between facilities with different arrangement length and the risk that a facility is chosen because of a higher access limit rather than its appropriateness in terms of addressing the balance of payments problem. Moreover, per-arrangement limits tend to tilt the allocation of concessional resources toward repeated users and those that move between different facilities or choose short durations (e.g., ESF-RAC, and 12-month ESF-HAC). Another weakness is that PRGF norms decline with the number of prior PRGF/ESAF arrangements, implying in some cases very low norms for countries that

⁵⁷ The section was prepared by Pritha Mitra, Linda Kaltani, and Hans Weisfeld.

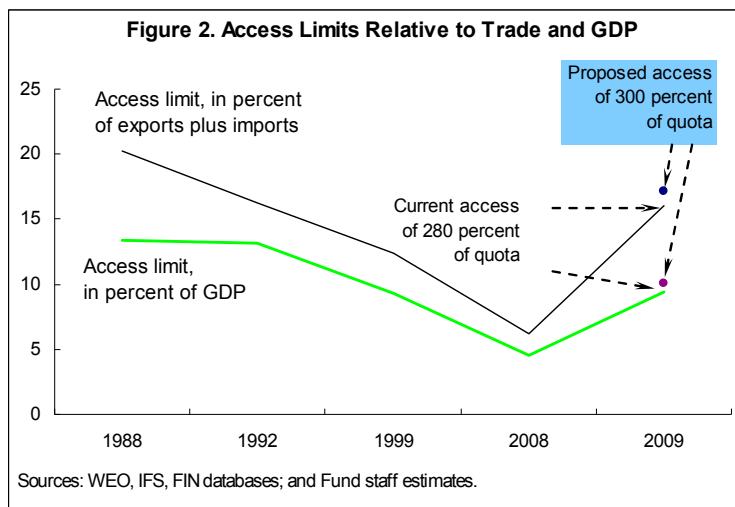
⁵⁸ Access has been at the limits in a number of recent PRGF and ESF cases. Where their needs exceeded the applicable limits of concessional financing, several LICs requested GRA financing.

⁵⁹ In April 2009, access limits under the PRGF were increased from 140 to 280 percent of quota and exceptional access from 185 to 370 percent of quota. Access limits were increased from 75 to 150 percent of quota for the ESF-HAC, and from 25 to 50 percent for the ESF-RAC. In line with these changes, access norms under the PRGF were also increased from 90 to 140 percent of quota for first time users, 65 to 125 percent of quota for second time users, while all other norms were doubled.

have used ESAF arrangements in the 1980s/90s and fully repaid. Moreover, as there are no norms for the ESF, access rules for the PRGF are perceived to be *de facto* more restrictive.

79. New global access limits preserve the recent doubling of access while ensuring flexibility and uniformity of treatment under all three facilities. Total access

under all concessional facilities will normally not exceed: (i) 100 percent of quota per year; and (ii) 300 percent of quota on a cumulative basis.⁶⁰ These proposals broadly preserve the average annualized access limits established after the doubling of limits in April 2009 (Figure 2).



80. Exceptional access policies are also modified in the new architecture.⁶¹ Access above the normal limits is available to LICs that (i) experience an exceptionally large balance of payments need, (ii) have a comparatively strong adjustment program and ability to repay the Fund,⁶² and (iii) do not meet the income and market access criteria for blending. In light of the scarcity of the Fund's concessional resources, exceptional access will be subject to hard caps (applying across all concessional facilities) of (i) 150 percent of quota per year and (ii) 450 percent of quota on a cumulative basis.

81. In addition, sub-limits on access apply to the RCF and to the precautionary use of the SCF (see Sections IV and III, respectively). Given the absence of a UCT-quality program, access under the RCF is limited to 25 percent of quota per year and 75 percent of

⁶⁰ The access limit of 100 percent of quota per year refers to any 12-month period, including past scheduled disbursements (not necessarily drawn upon in the case of precautionary arrangements and delayed disbursements) and future scheduled disbursements. The 300 percent of quota limit on a cumulative basis implies that total outstanding Fund concessional credit (including disbursements that were approved but not drawn in the context of a precautionary arrangement) cannot exceed 300 percent of quota at any given time.

⁶¹ While the PRGF had a provision for access in exceptional circumstances, it did not define the nature of those circumstances. Exceptional access was granted only in the context of arrears clearance, to Liberia and Zambia.

⁶² This criterion would be based on an assessment by the Fund that the country's program and ability to repay the Fund are stronger than for a large majority of LICs. It would generally not be met for countries with a high risk of debt distress or those that are in debt distress as defined under the joint Bank-Fund Debt Sustainability Framework, unless expected debt relief or restructuring is projected to reduce the risk of debt distress to a moderate level or low level.

quota on a cumulative basis, with the possibility of augmented access under the shocks window. Outstanding credit under the RCF would count toward the global access limits. An annualized sub-limit of 50 percent of quota applies to the precautionary use of the SCF (see Section III).

82. **New access norms are proposed for UCT concessional financing, based on total outstanding credit.** Access norms provide general guidance,⁶³ and represent neither ceilings nor entitlements. Norms will continue to be applied flexibly, and access could deviate substantially from the norms, for instance in case of large shocks. The proposed access norms under each arrangement⁶⁴ are:

- 120 percent of quota when outstanding concessional credit is less than 100 percent of quota;
- 75 percent of quota, when outstanding concessional credit is 100 percent of quota or more;
- For outstanding concessional credit above 200 percent of quota, the norms do not apply, and access will be guided by consideration of the access limit of 300 percent of quota, expectation of future need for Fund support, and the repayment schedule.

83. **The norms are designed to provide similar levels of access to concessional resources over the longer run to all members, while taking into account the differing patterns of usage under the ECF and SCF (Box 2 and Figure 3).** Compared to the ECF, the SCF would be used more episodically, requiring support that is more concentrated over relatively brief periods. Accordingly, norms are the same for both arrangements, implying that support under the SCF is more concentrated on an annualized basis, consistent with its shorter duration and less frequent usage (underpinned by restrictions on repeated use). Figure 3 shows that, in a hypothetical example, comparing successive use of the ECF with episodic use of the SCF (applying the norms in each case), total outstanding credit would typically fluctuate in a similar range for both types of uses.

⁶³ Norms for the ESAF/PRGF were introduced in 1994 to provide guidance for access decisions in cases of repeated PRGF use.

⁶⁴ These norms apply to ECF arrangements and to 18-month SCF arrangements. For SCF arrangements of any other length, the norms will be proportionally adjusted to keep annualized average access unchanged.

Box 2. Access Norms and Limits: Comparing the Existing and Proposed Rules

Proposed norms and limits address weaknesses of the current system in ensuring uniformity of treatment while preserving the Fund's scarce concessional resources.

The proposed access limits and norms are in line with their recent doubling. The proposed annual access limit for the ECF and SCF, of 100 percent of quota, is similar to the annualized limits for the ESF and PRGF.

Existing and Proposed Access Limits and Norms (in percent of quota)				
	PRGF	ECF	ESF 1/	SCF 1/
Annualized Limit	93	100	100	100
Average Annualized Norm	33	33	...	65

1/ ESF represents ESF HAC only. ESF and SCF each assumes a duration of 1.5 years.

Source: Fund staff estimates.

Linking the proposed norms and limits to outstanding credit allows for a more equitable treatment in the allocation of scarce concessional resources. The proposed 300 percent of quota limit on outstanding concessional resources allots more room for new borrowing to countries that have used little or no Fund credit in the recent past, relative to those that have recently received large amounts of financial support. This helps limit moral hazard, and avoids skewing the allocation of the Fund's scarce concessional resources to a small number of countries.

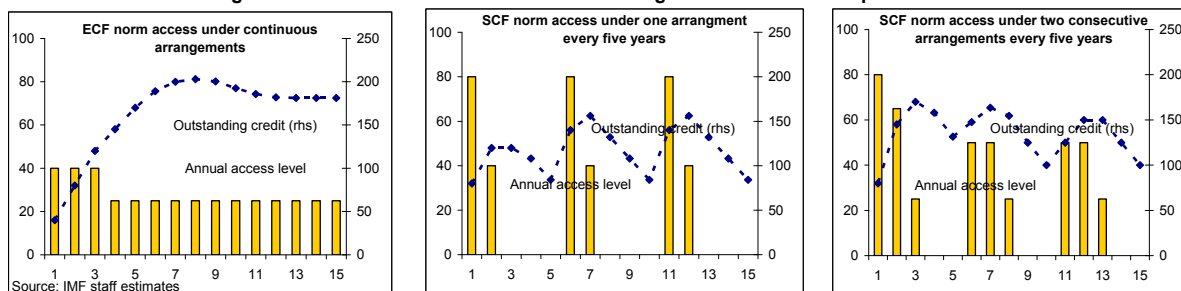
The proposed norms correct an anomaly that ties access to use of Fund credit in the 1980s and 1990s, which is by now fully repaid. A hypothetical country with four PRGF arrangements from 1988 to 2000 now has a norm of only 70 percent of quota for a new three-year arrangement, although it would have almost fully repaid all credit. By contrast, a country with two recent PRGF arrangements (e.g., 2000 to 2006) would have a norm of 110 percent of quota, even if it had still, say, 200 percent of quota in credit outstanding, tying up scarce concessional resources. The proposed norms would effectively reverse this picture: the first hypothetical country case would have a norm of 120 percent of quota, and the second a norm of 75 percent of quota.

The norms now treat SCF and ECF users consistently, by introducing focal points for access that promote broadly similar access to concessional resources over the longer run (see Figure 3). The lack of norms for ESF arrangements has tilted access toward the limit. Two of four high-access ESF users have received access at the limit. In the absence of guidance from norms, average access across these ESF users is about 80 percent of the limit. In contrast, average PRGF access is around 40 percent of the limit that was applicable at the time of approval or augmentation.

The proposed norms foresee a more gradual accumulation of Fund credit for countries that start using the ECF to address a protracted need than would be the case under the PRGF. Applying current PRGF norms, outstanding credit of new users increases rapidly to just over 270 percent of quota after three consecutive arrangements. By contrast, under the proposed norms total outstanding credit after three consecutive ECF arrangements would be under 190 percent of quota.

Incentives for arbitrage across facilities are much reduced. Currently, for example, a front-loaded PRGF that has already disbursed 230 percent of quota over two years can be canceled and replaced with a one-year ESF of 150 percent of quota. Consequently, additional access of 100 percent of quota (380 versus 280 percent of quota) is gained over the user's original PRGF access limit. The proposed cumulative limit across all concessional facilities would make this impossible.

Figure 3: Simulations of Access and Outstanding Credit Under the Proposed Norms



84. **The proposed uniform norms and global limits on access promote uniformity of treatment in determining access to concessional resources for countries with differing types of needs.** Box 2 discusses the improvements under the proposed architecture with several additional examples, highlighting that the proposed access limits and norms help ensure that the choice of facility is determined by its appropriateness in addressing the adjustment need and not by access rules.

85. **Access in individual countries will continue to be determined on a case-by-case basis.** For all three facilities, actual access is based on three established criteria: (i) the member's actual and potential balance of payments need; (ii) the strength of its program and capacity to repay the Fund (including policy and debt sustainability considerations); and (iii) the amount of outstanding Fund credit and the member's record of past use.

86. **For ECF and SCF arrangements, access can be phased according to expected financing needs, and may be augmented.** The phasing of access under an arrangement can be front- or back-loaded as appropriate, taking into account the likely timing of a member's actual or potential balance of payments need, current and committed policies, the external economic environment, the sequencing of financing from other sources, and the desirability of maintaining an adequate level of reserves. Access can also be augmented to help meet a larger balance of payments need than expected previously or to support a strengthening of the program.⁶⁵ Augmentations would normally be approved at the time of a review under the arrangement.

Procedural Safeguards

87. **High-access financing requests will be subject to procedural safeguards that apply uniformly to all concessional facilities.** These safeguards apply to requests under all three facilities, and include the following elements:

- A DSA update is required for financing requests (augmentation or a new arrangement) under any of the three concessional facilities that would: (i) involve exceptional access;

⁶⁵ This could be appropriate, for example, if access was initially constrained by a high risk of debt distress, which has later subsided.

and/or (ii) bring total access to more than 80 percent of quota, based on past scheduled (not necessarily drawn) and future scheduled disbursements, in any 24-month period; and/or (iii) involve a member with a high risk of debt distress or in debt distress.

- An early informal Board meeting is required if a financing request (augmentation or a new arrangement), would involve exceptional access and/or bring total access to more than 180 percent of quota, based on past scheduled (not necessarily drawn) and future scheduled disbursements, in any 36-month period.
- As an exception, financing requests of 10 percent or less of quota do not trigger either of these two procedural safeguards.

B. Financing Terms

88. **Some refinements to existing financing terms are appropriate in the context of the reform of facilities.** As market interest rates have fallen in recent years, the grant element of the Fund's concessional resources has declined, and the IMFC called on the Fund to explore ways to increase the concessional nature of its lending.⁶⁶ In addition, EPCA and ENDA are currently based on GRA repayment terms, making these facilities significantly less concessional than the ESF and the PRGF, even though many LICs using these emergency facilities are often among the poorest, with some constrained by very weak capacity. Finally, an efficient allocation of concessional resources under the new LIC facilities architecture should align repayment terms with the expected duration of the needs.

89. **Reducing the interest rate is the most efficient way to enhance the concessional nature of the Fund's financial support to LICs.** Given the Fund's unique role in inter-temporal smoothing of adjustment, extending the maturity of its loans to achieve greater concessional nature would not be an efficient way to leverage its scarce concessional resources. Specifically, it would provide additional liquidity to borrowers in the outer years of the repayment period, when it may no longer be needed, while constraining resources for other members that may face liquidity problems at that time. By contrast, increasing the concessional nature of Fund credit to LICs through reduced interest rates provides immediate benefit to users and is more consistent with the focus on near- to medium-term financing needs.

90. **Taking these considerations into account, the proposed LIC facilities architecture would provide for a reduced interest rate and differentiated repayment terms.** It is proposed that all three facilities have an interest rate of ¼ percent, below the current PRGF-ESF rate of ½ percent.* Repayment terms for the ECF and RCF would be

⁶⁶ The grant element fell from 36 percent in 2000 to 30 percent in 2008, based on the annual average CIRR.

* A revised staff proposal was approved by the Executive Board, with the following initial interest rate structure: 0.0/0.0/0.25 percent for the ECF, RCF, and SCF, respectively (see Supplement 1).

aligned with the current PRGF-ESF terms (10-year maturity and 5½-year grace period). This would provide moderately more concessional terms for ECF users, and a significant increase in concessionality for countries currently supported by the subsidized ENDA or EPCA,⁶⁷ consistent with the expectation that most countries seeking ECF or RCF support face protracted financing and adjustment needs that are likely to expose them to significant debt vulnerabilities. The SCF would have a shorter repayment period (8-year maturity and 4-year grace period), in line with the short-term nature of the need and generally stronger debt service capacity of potential users, as they would not face protracted balance of payments problems and may have greater access to international financial markets. Given the “insurance” role of the precautionary feature of the SCF, a commitment fee of 15 basis points is charged and refunded upon actual use. The relatively modest overall increase in concessionality is consistent with the Fund’s unique role in providing temporary balance of payments support and catalyzing (often more concessional) donor flows.⁶⁸

C. Blending

91. **Blending of the PRGF with GRA instruments has been rarely used.**⁶⁹ Blending of concessional and GRA-based lending allows higher access and positive signaling for countries successfully moving toward middle-income, emerging market status. It also helps conserve scarce concessional resources for those members that have limited access to non-concessional financing or for which only concessional financing is appropriate. Existing blending rules limit concessional access to half of the PRGF norm. Blending has been presumed for LICs with (i) per capita income exceeding 75 percent of the prevailing IDA operational cutoff or (ii) significant recent or prospective non-concessional borrowing from private capital markets or the “hard windows” of official lenders. However, LICs meeting the criteria for blend arrangements have often favored GRA financing only or PRGF financing only. This may in part reflect the rigid concessional component of blended arrangements that can be very small for countries that have used PRGF in the past. Moreover, blending has not been applied to the ESF.

92. **The proposed rules promote more consistent use of blended arrangements through better tailoring to country circumstances.** To strengthen the signaling role of

⁶⁷ Subsidized support through ENDA and EPCA is based on a ½ percent interest rate and the shorter GRA repayment period (5 year maturity and 3¼ year grace period).

⁶⁸ Providing adequate access to meet urgent needs of members would thus have high weight in the trade-off with increased concessionality (given the limited supply of Fund concessional resources). Based on the long-term historical average CIRR discount rate of 6.4 percent, the proposed financing terms would bring the average grant element of all LIC instruments to 37 percent.

⁶⁹ Over the past ten years, there have been only four blend arrangements (for Albania, FYR Macedonia, Liberia, and Sri Lanka).

blending and ensure it is used more consistently, the per capita income threshold for blending is raised to the prevailing IDA operational cutoff (currently \$1,095). Also:

- the new rules would clarify that the presumption of blending in cases of market access would apply only to sustained past and prospective market access;
- access to concessional financing in a blended arrangement would normally be 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; this would tailor blend ratios and access to the member's needs while limiting recourse to GRA financing in cases with moderate access and preserving concessional resources (and reducing average concessional access) as access rises above normal levels;
- to provide greater flexibility to LICs, blending can also be applied to the precautionary SCF;
- blending is normally not used for countries at a high risk of debt distress or in debt distress;
- in exceptional circumstances, when financing needs exceed the applicable access limits—notably in cases of clearance of protracted arrears to the Fund—blending can be used irrespective of the per capita income, market access, and debt sustainability criteria; in these cases, the concessional access part of the blended arrangement could exceed the 50 percent of quota ceiling;
- in blending cases, access levels under both the concessional facility and GRA-based facility will continue to be determined on a case-by-case basis based on established criteria such as balance of payments and strength of the program, with due attention to debt sustainability.

D. Transitional Arrangements

93. **The proposed transitional arrangements aim to promote uniformity of treatment and avoid unduly constraining access for countries with relatively high levels of credit outstanding prior to the reform.** The new access limits will not affect any disbursements under arrangements that were approved prior to date the decision establishing the new architecture becomes effective. Outstanding PRGF and ESF credit would count toward the new global annual and cumulative access limits.⁷⁰ However, for countries where previously committed PRGF or ESF disbursements exceed 50 percent of quota per year or where total

⁷⁰ If a member decides to replace outstanding ENDA or EPCA credit with RCF or ECF resources, these credits would also count toward the global annual and cumulative access limits.

outstanding PRGF and ESF credit exceeds 150 percent of quota, access above the normal (annual and cumulative) global limits (either through augmentations or new arrangements) is possible during a transition period that expires on December 31, 2010, even when the country does not meet exceptional access criteria. Additional flexibility in applying the new norms will be used for these countries during the transition period. For existing arrangements, the revised access norms do not create a presumption that access will be adjusted on the basis of the new norm (augmentations will continue to be based on existing policies).

APPENDIX I. CONSULTATIVE PROCESS

The proposed reform of the Fund's facilities for LICs has benefited from feedback provided by country authorities, donors, civil society, and academics. This appendix summarizes issues raised during three events that were part of this consultative process.

Survey of the Fund's Mission Chiefs. In January 2009, mission chiefs for all LICs that have received IMF missions during the past four years (2005–08) were asked to report on issues raised by authorities and civil society on the architecture of Fund facilities.

Survey responses reported that country authorities, donors, and civil society organizations had noted gaps in the current architecture of the Fund's facilities, including: (i) the absence of a policy support instrument for low-income countries that are not considered mature stabilizers and do not have an immediate balance of payments need; (ii) the absence of an instrument providing concessional financing for non post-conflict fragile states; (iii) the lack of an instrument providing short-term concessional financing to address needs from domestic pressures and/or policy slippages that do not qualify a country for the ESF; (iv) the absence of an instrument providing precautionary access to concessional financing; and (v) the absence of an emergency concessional rapid-access facility. It was also noted that there had been little criticism of the level of concessionality in Fund programs for low-income countries, though with some notable exceptions.

Seminar for Country Authorities. On April 26, 2009, the authorities of 22 low-income countries met in Washington to discuss the reform of the IMF's facilities for LICs. The discussion focused on three key themes: (i) the urgency for reform of the Fund's financing facilities for LICs in light of the serious global financial crisis; (ii) the importance of devising facilities that can respond in a more flexible manner to LICs' resource needs; and (iii) the need to continue reassessing the structure and scope of conditionality.

While strong support emerged for retaining a PRGF-like instrument, there was general consensus that the Fund's LIC toolkit needed to be redesigned. In particular, participants saw a need for facilities that could provide financing on more flexible terms and support programs of shorter duration, including a new concessional instrument for short-term financing needs. It was also noted that a precautionary facility could make a useful contribution in both preventing liquidity pressures and responding to the spillovers from the global crisis. A precautionary facility would both help maintain private-sector and donor confidence and provide for the rapid disbursement of financial assistance if a need were to materialize.

Though participants did not see a strong need to change concessionality of Fund's lending, there was a general view that the specific financial terms of the proposed new concessional facilities should not necessarily be the same as those of the PRGF, which was designed to respond to situations quite different from the current crisis.

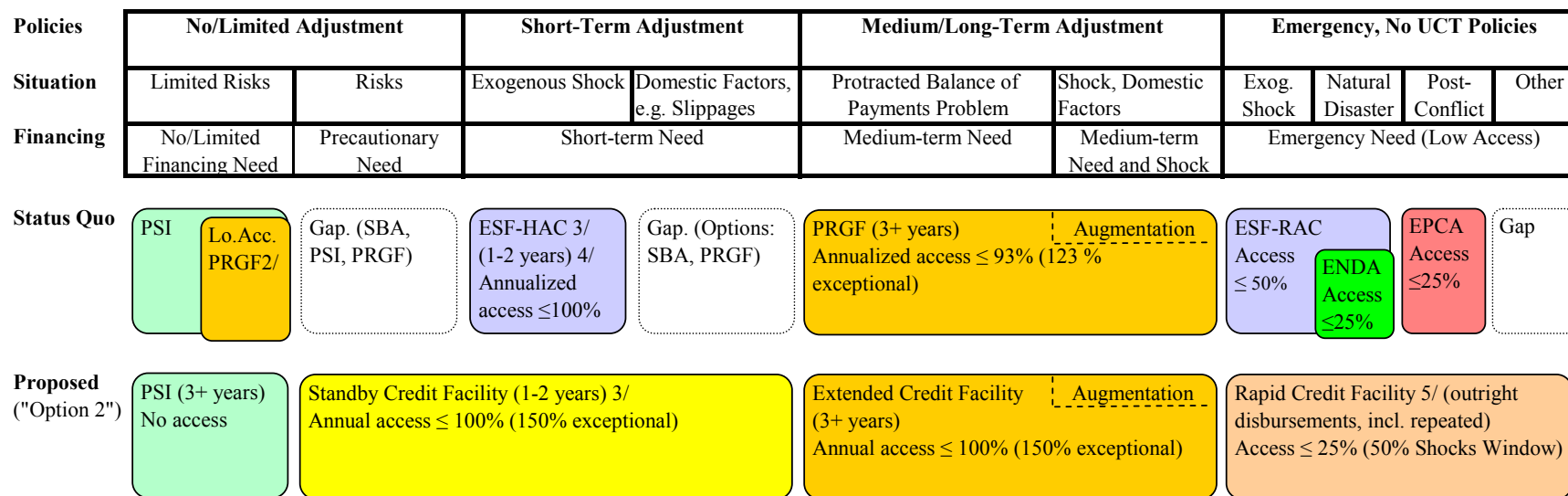
While Poverty Reduction Strategy Papers (PRSPs) were generally seen as useful, there were doubts about their role in crisis situations. In particular, in a context of financing needs arising from sudden shocks, such as the recent crisis, PRSPs were not seen as playing a crucial role, as they were usually prepared during periods in which the problems posed by the recent crisis were not contemplated. For these reasons, participants did not see the need for a direct link between the PRSP and short-term financing needs instruments.

Conference Call with Civil Society Organizations (CSOs). On May 15, 2009, a number of representatives of CSOs from around the world participated in a conference call to provide inputs on the review of the reform of Fund's facilities for LICs. This followed earlier discussions with CSOs in late 2008 and early 2009.

There was broad agreement on the need to revisit the architecture of Fund's facilities for LICs. In particular, several participants felt that the overall concessional resources envelope should be increased to help LICs face the impact of the global crisis. Also, in expressing the desire for augmenting the Fund's toolkit with a Flexible Credit Line-like concessional facility, participants favored the creation of an emergency instrument with higher flexibility, rapid access, and no predefined forward-looking conditionality. A higher degree of concessionality was considered important to avoid debt problems and align Fund's lending with other donor support

APPENDIX II. STYLIZED COMPARISON OF EXISTING AND PROPOSED ARCHITECTURES

Figure 4. LIC Facilities Architecture: Status Quo and Proposed Model 1/



- 1/ Stylized Illustration. Does not include possible overlaps due to multiple events (e.g. a post-conflict country exposed also to a shock).
- 2/ Low-access PRGF arrangement, normalized at 10 percent of quota.
- 3/ Can be used while PSI remains in place.
- 4/ Annualized access assumes 18-month arrangement.
- 5/ Includes Shocks Window.